

VIRTUAL UNIVERSITY OF PAKISTAN

A Good Education is a Foundation For a Better Future

CORRECT ANSWER SOLVED BY HADI
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TEAM HADI(VU LAHORE)

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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!



Question No : 1 of 27

Marks: 1 (Budgeted Time 1 Min)

Which group of ratios measures how effectively the firm is using its assets?

**Any doubt
contact us :**

Answer (Please select your correct option)

☒ Liquidity ratios

☐ Debt ratios

☐ Coverage ratios

☐ Activity ratios

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Question No : 2 of 27

Marks: 1 (Budgeted Time 1 Min)

The basic capital budgeting principles involved in determining relevant after-tax incremental operating cash flows require us to _____.

Answer (Please select your correct option)

☐ Include sunk costs, but ignore opportunity costs

☐ Include opportunity costs, but ignore sunk costs

☐ Ignore both opportunity costs and sunk costs

☐ Include both opportunity and sunk costs

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Question No : 3 of 27

Marks: 1 (Budgeted Time 1 Min)

Who is responsible for the decisions relating capital budgeting and capital rationing?

Answer (Please select your correct option)

☐ Chief executive officer

☐ Junior management

☐ Division heads

☐ All of the given option

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Question No : 4 of 27

Marks: 1 (Budgeted Time 1 Min)

Market price of the bond changes according to which of the following reasons?

Answer (Please select your correct option)

☐ Market price changes due to the supply –demand of the bond in the market

☐ Market price changes due to Investor's perception

☐ Market price changes due to change in the interest rate

☐ All of the given options

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Question No : 5 of 27

Marks: 1 (Budgeted Time 1 Min)

Which of the following will likely to grow with the growth in sales?

Answer (Please select your correct option)

- ☐ Capital
- ☐ Fixed liabilities
- ☐ Fixed assets
- ☒ Current assets

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Question No : 6 of 27

Marks: 1 (Budgeted Time 1 Min)

Which of the following are the types of annuities?

Answer (Please select your correct option)

☐ Perpetuity and discrete annuity

☐ Ordinary and discrete annuity

☐ Discrete and simple annuity

☒ Ordinary and annuity due

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Question No : 7 of 27

Marks: 1 (Budgeted Time 1 Min)

In Gordon's formula ($r_{CE} = \text{DIV}_1 / P_0 + g$), r_{CE} is considered as _____ and " g " is considered as _____.

Answer (Please select your correct option)

☐ Dividend yield, operating expenses

☐ Dividend yield, operating income

☐ Dividend yield, capital loss

☒ Dividend yield, capital gain

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Question No : 8 of 27

Marks: 1 (Budgeted Time 1 Min)

The probability of any one outcome for an event is always stated as a percentage of which of the following?

Answer (Please select your correct option)

☒ Most likely outcomes

☐ Total outcomes possible

☐ Past outcomes for the event

☐ Independent events

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Question No : 9 of 27

Marks: 1 (Budgeted Time 1 Min)

Which of the following helps to normally reduce the riskiness of a portfolio of stocks?

Answer (Please select your correct option)

Beta

☐

Diversification

☐

Standard deviation

☐

Correlation coefficient

☐

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Question No : 10 of 27

Marks: 1 (Budgeted Time 1 Min)

The value at which buyers and sellers are willing to buy and sell any asset is known as:

Answer (Please select your correct option)

☐ Liquidation value

☐ Book value

☐ Intrinsic value

☒ Market value

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Question No : 11 of 27

Marks: 1 (Budgeted Time 1 Min)

Estimated Sales of Zam Zam store is of Rs. 250,000. Profit Margin is 30% and plowback ratio is 40% .It is required from you to identify the Estimated Retained Earnings of Zam Zam store.

Answer (Please select your correct option)

☐ Rs. 30,000

☐ Rs. 100,000

☐ Rs. 75,000

☒ Rs. 45,000

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Question No : 12 of 27

Marks: 1 (Budgeted Time 1 Min)

By keeping in view patterns of cash flow, either inflows or outflows, Rs. 2,000 at the end of each year for the next 10 years is known as:

Answer (Please select your correct option)

☐ Ordinary Annuity

☐ Annuity due

☐ Mixed Stream

☐ None of the given options

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Question No : 13 of 27

Marks: 1 (Budgeted Time 1 Min)

Which of the following is the example of an annuity?

Answer (Please select your correct option)

☐ Fixed coupon payments

☐ Insurance premium

☐ Monthly rental payments

☒ All of the given options

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Question No : 14 of 27

Marks: 1 (Budgeted Time 1 Min)

Which of the given capital budgeting technique give more appropriate result for project evaluation?

Answer (Please select your correct option)

☐ Profitability index



☐ Net present value

☐ Pay back period

☐ Return on investment

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Question No : 15 of 27

Marks: 1 (Budgeted Time 1 Min)

Which of the following will NOT equate the present value of cash inflows to the present value of cash outflows?

Answer (Please select your correct option)

☐ Discount rate

☐ Profitability index

☐ Internal rate of return

☐ Multiple Internal rate of return

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Question No : 16 of 27

Marks: 1 (Budgeted Time 1 Min)

There is inverse relationship between bond price and _____.

Answer (Please select your correct option)

☐ Market interest rate

☐ Par value

☐ Coupon rate

☐ Market value

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Question No : 17 of 27

Marks: 1 (Budgeted Time 1 Min)

Which of the following security is NOT known as a direct claim security?

Answer (Please select your correct option)

☐ Common stocks

☐ Bonds

☐ Preferred stocks

☒ None of the given options

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Question No : 18 of 27

Marks: 1 (Budgeted Time 1 Min)

In which of the given situation Financial Manger of a company can minimize total risk?

Answer (Please select your correct option)

- ☐ Changes in interest rate
- ☐ Fluctuation in purchasing power
- ☐ Changes in management decisions and capabilities
- ☐ Political instability in country

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Question No : 19 of 27

Marks: 1 (Budgeted Time 1 Min)

Coefficient of variation (CV) of Asset S is 1.2 and 20% standard deviation. What will be expected return of Asset S?

Answer (Please select your correct option)

☐ 16.67%

☐ 76.61%

☐ Rs. 16.67

☐ Rs. 76.61

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Question No : 20 of 27

Marks: 1 (Budgeted Time 1 Min)

“ABC Corporation’s stock price has fallen because it was not able to meet its production deadlines”, it is an example of which of the following?

Answer (Please select your correct option)

☐ Market risk

☐ Company specific risk

☐ Industry risk

☐ Economic risk

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Question No : 21 of 27

Marks: 1 (Budgeted Time 1 Min)

Which one of the following cannot issue the bond?

Answer (Please select your correct option)

check it

☐ Individuals

☐ Government

☐ Public limited companies

☐ Listed companies

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Question No : 22 of 27

Marks: 1 (Budgeted Time 1 Min)

While employing percentage sales method, cash flow estimates are based on the:

Answer (Please select your correct option)

☒ Sales revenue

☐ Total assets

☐ EBIT

☐ Net profit

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Question No : 23 of 27

Marks: 3 (Budgeted Time 6 Min)

Briefly discuss the benefits enjoyed by common shareholder over preferred shareholders.

Answer ([Please click here to Add Answer](#))



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Question No : 24 of 27

Marks: 3 (Budgeted Time 6 Min)

ABC Company's stock is currently trading at Rs. 150 and fair value of stock is Rs. 127.50. What should be decision of rational investor in this situation (buying or selling)? Justify your answer.

Answer ([Please click here to Add Answer](#))



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Question No : 25 of 27

Marks: 3 (Budgeted Time 6 Min)

What is the future value of a 5-year ordinary annuity that promises to pay you Rs. 300 at the end of each year? Assume that all payments are made @ 10 percent annually for five years.

Answer ([Please click here to Add Answer](#))



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Question No : 26 of 27

Marks: 5 (Budgeted Time 10 Min)

Mr. Salem wants to make long term investments, he decides to purchase bond from XYZ Company, that pays coupon on its bond quarterly; calculate the intrinsic value of bond under the following circumstances:

A- 5 year bond with 12% coupon rate is selling at Rs. 1,650. Face value of the bond is Rs. 1,000. Required rate of return is 16%.

Answer ([Please click here to Add Answer](#))



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Suppose that your estimates of the possible returns from investing in the common stock of Eagle Eye Productions were as follows:

	Probability of	Possible

Answer ([Please click here to Add Answer](#))



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Economic Conditions	P_i %	returns R_i %
Boom	60	55
Recession	40	45

You are required to compute the following with the help of provided information.

a) expected value of return

Answer ([Please click here to Add Answer](#))



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Question No : 27 of 27

Marks: 5 (Budgeted Time 10 Min)

You are required to compute the following from the data of performance measurement

- a) expected value of return
- b) standard deviation of return

Answer ([Please click here to Add Answer](#))



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