

VIRTUAL UNIVERSITY OF PAKISTAN

A Good Education is a Foundation For a Better Future

CORRECT ANSWER SOLVED BY HADI
EMAIL: hadirajputofficial@gmail.com
WHATSAPP& CALL: 03087122922

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)

Who determines the market price of a share of common stock?

Answer (Please select your correct option)

☐ The board of directors of the firm

☐ The stock exchange on which the stock is listed

☐ The president of the company

☐ Individuals buying and selling the stock



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Question No : 2 of 27

Marks: 1 (Budgeted Time 1 Min)

In finance we refer to the market where existing securities are bought and sold as the _____ market.

Answer (Please select your correct option)

☐ Money

☐ Capital

☐ Primary

☒ Secondary



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WHATSAPP& CALL-03087122922

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Question No : 3 of 27

Marks: 1 (Budgeted Time 1 Min)

ABC's and XYZ's debt-to-total assets ratio is 0.4. What is its debt-to-equity ratio?

Answer (Please select your correct option)

☐ 0.77

☐ 0.667

☐ 0.333

☐ 0.2

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Question No : 4 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 _____.

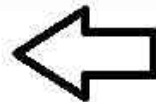
Answer (Please select your correct option)

☐ 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 : 5 of 27

Marks: 1 (Budgeted Time 1 Min)

A capital budgeting technique through which discount rate equates the present value of the future net cash flows from an investment project with the project's initial cash outflow is known as:

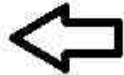
Answer (Please select your correct option)

☐ Payback period

☒ Internal rate of return

☐ Net present value

☐ Profitability index



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Question No : 6 of 27

Marks: 1 (Budgeted Time 1 Min)

What type of long-term financing most likely has the following features: 1) it has an infinite life, 2) it pays dividends, and 3) its cash flows are expected to be a constant annuity stream?

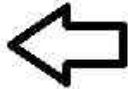
Answer (Please select your correct option)

☐ Long-term debt

☒ Preferred stock

☐ Common stock

☐ None of the given option



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Question No : 7 of 27

Marks: 1 (Budgeted Time 1 Min)

Which of the following risk can be diversified away?

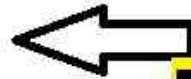
Answer (Please select your correct option)

☐ Un systematic risk

☐ Beta risk

☐ Firm specific risk

☐ Market risk



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Question No : 8 of 27

Marks: 1 (Budgeted Time 1 Min)

Which of the following has NO effect when the financial health (cash flows and income) of the company changes with time?

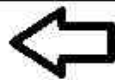
Answer (Please select your correct option)

☐ Market value

☐ Price of the share

☒ Par value

☐ None of the given options



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Question No : 9 of 27

Marks: 1 (Budgeted Time 1 Min)

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

Answer (Please select your correct option)

- ☐ A worldwide recession
- ☐ A world war
- ☐ World energy supply
- ☐ Company management change

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Question No : 10 of 27

Marks: 1 (Budgeted Time 1 Min)

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

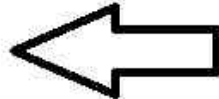
Answer (Please select your correct option)

☐ Depreciation

☒ Sunk cost

☐ Opportunity cost

☐ Non-cash item



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Question No : 11 of 27

Marks: 1 (Budgeted Time 1 Min)

Which of the following is the other name of ordinary annuity?

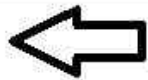
page 36

Answer (Please select your correct option)

☐ Compounded annuity

☐ Time line annuity

☐ Deferred annuity



☐ Preferred annuity

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Question No : 12 of 27

Marks: 1 (Budgeted Time 1 Min)

About 100% of diversified risk and 50% of total risk can be removed by diversification across how many stocks?

Answer (Please select your correct option)

25

☐

55

☐

50

☐

40

☐

check it

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Question No : 13 of 27

Marks: 1 (Budgeted Time 1 Min)

Which of the given ratio measures the firm's ability to make contractual interest payments?

Answer (Please select your correct option)

☐ Debt ratios

☐ Coverage ratios

☐ Activity ratios

☐ Liquidity ratios

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Question No : 14 of 27

Marks: 1 (Budgeted Time 1 Min)

Market interest rate < coupon interest rate, it means bond is issued at:

**check plz lecture
14**

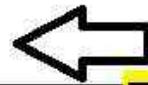
Answer (Please select your correct option)

☐ premium.

☐ discount.

☐ par.

☐ none of the given option.



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Question No : 15 of 27

Marks: 1 (Budgeted Time 1 Min)

Which bond type is the most price sensitive to the changes in required rate of return?

Answer (Please select your correct option)

☐ 18 year bond

☐ 12 year bond

☐ 15 year bond

☐ 3 year bond

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Question No : 16 of 27

Marks: 1 (Budgeted Time 1 Min)

Which of the following play important role to determine the price of the bond?

Answer (Please select your correct option)

- ☐ Required rate of return
- ☐ Par value of bond
- ☐ All of the given options
- ☐ Time period for which bond is issued

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Question No : 17 of 27

Marks: 1 (Budgeted Time 1 Min)

Following information is extracted from books of Bin Shafiq Garments; you are required to calculate Earning per share with the help of data given below:

Net Income	Rs. 1 Million
Dividend paid to preferred stockholder	30% of Net Income
Number of common share outstanding	50,000 shares

Answer (Please select your correct option)

☐ Rs. 6.00

☐ Rs. 26.00

☐ Rs. 14.00

☐ Rs. 20.00

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Question No : 18 of 27

Marks: 1 (Budgeted Time 1 Min)

Following information is extracted from books Alpha Corporation:

Market price of common stock	Rs. 50.00
Expected dividend (D_1)	Rs. 2.45/ share
Required Rate of return	7%
Dividend Yield	?

Answer (Please select your correct option)

☐ 4.9 %

☐ 9.4 %

☐ 7.0 %

☐ Required more information for this

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Question No : 19 of 27

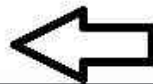
Marks: 1 (Budgeted Time 1 Min)

Which of the given investment will be suitable for Ms Ayesha, if she wants to make risk free investment?

**check please....
because without
investmentno
business**

Answer (Please select your correct option)

- ☐ Government bonds
- ☐ Common stocks of public limited company
- ☐ Common stocks of subsidiary of public limited company
- ☐ None of the given options



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Question No : 20 of 27

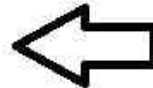
Marks: 1 (Budgeted Time 1 Min)

Which of the following statement is not included in a set of financial statements?

**check but by
concept**

Answer (Please select your correct option)

- ☐ Balance sheet
- ☐ Income & expenses account
- ☐ Statement of changes in equity
- ☐ Annual report



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Question No : 21 of 27

Marks: 1 (Budgeted Time 1 Min)

The process of finding the present value of some future amount is called:

**The current value of future cash flows discounted at the appropriate discount rate is called the:
The process of finding the present value of some future amount is often called**

Answer (Please select your correct option)

☐ Discounting



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☐ Financing

☐ Lending

☐ Investing

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Question No : 22 of 27

Marks: 1 (Budgeted Time 1 Min)

Which of the following bond type is least price sensitive to the changes in required rate of return?

Answer (Please select your correct option)

☐ 15 year bond

☐ 3 year bond

☐ 18 year bond

☐ 12 year bond

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Question No : 23 of 27

Marks: 3 (Budgeted Time 6 Min)

Want to be a millionaire? No problem! Suppose you are currently 21 years old, and can earn 10 percent on your money. How much must you invest today in order to accumulate Rs. 1 million by the time you reach age 65?

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



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Question No : 24 of 27

Marks: 3 (Budgeted Time 6 Min)

Why a compnay would raise money through debt rather than equity?

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



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Question No : 25 of 27

Marks: 3 (Budgeted Time 6 Min)

Required rate of return for common stock and preferred stock is different. What is the reason of this difference?

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



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Pharmaceutical company's common stock is expected to pay Rs. 10 dividend. This share is selling in market for Rs. 55.50 at the end of one period.

Required:

- What is the value of this stock to an investor who requires 13% rate of return?
- What would you suggest in this case (buying or selling)?

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



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A security analyst has estimated the following returns on the stocks of 4 large companies:

	Weightage	Expected Returns
Company A	25%	12%
Company B	25%	11.5%
Company C	25%	10%

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



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Question No : 27 of 27

Marks: 5 (Budgeted Time 10 Min)

Company A	25%	12%
Company B	25%	11.5%
Company C	25%	10%
Company D	25%	9.5%

You are required to calculate the expected return on this portfolio.

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



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