Exam Seat No. ___

(B.)P. COLLEGE OF BUSINESS ADMINISTRATION

(Constituent College of Kadi Sarva Vishwavidyalaya)

BBA SEM – V

MCQ TEST September 2013

SUB: Advance Financial Management (BBA30)

Date: 10/09/13 **Total Marks: 60**

Day: Tuesday **Duration: 40 minutes**

Instructions:

- *All questions are compulsory.*
- *All questions carry 2 marks each.*

1. For a firm, cost of equity is 15%, Risk free rate is 7% and average market risk premium is 5%. What is the value of Beta (β)?
   (A.) 2.67 (B.) 1.6 (C.) 1.375 (D.) 2
2. The company has a policy of paying dividends at the rate of 12% of the market price of the share in the beginning of the year. Dividend per share is expected to grow at the rate of 8%. What is cost of equity?
   (A.) 15% (B.) 15.75% (C.) 20% (D.) 10%
3. AFM Lt(D.)issued Rs. 10 lakh 12% perpetual debentures of Rs. 100 each. Calculate the cost of debt if debentures are issued at par with 4% flotation cost. (Assume corporate tax rate of 40%)
   (A.) 12% (B.) 7.5% (C.) 16% (D.) 7.2%
4. The capital structure of a firm is made up of 45% equity, 30% debt and 25% preference capital. The specific costs are 15%, 10% and 12% respectively, what is the WACC?
   (A.) 15% (B.) 10% (C.) 12% (D.) 12.75%
5. An irredeemable preference share of a company is sold at face value of Rs. 100 and has dividend rate of 14%. There is dividend tax of 4%. No flotation cost. What is cost of preference share capital?
   (A.) 13.44% (B.) 14.56% (C.) 14% (D.) 18%
6. α Lt(D.)issued Rs. 100 lakh 12% preference shares of Rs. 100 each redeemable at par after 10 years. Calculate the cost of preference shares if they are issued at 10% premium with 5% flotation cost. (Assume dividend tax rate of 8%)
   (A.) 12.40% (B.) 13.16% (C.) 12.19% (D.) 14.84%
7. When a company sells bonds or shares to specific investors, rather than to general public is known as __.
   (A.) Initial Public Offering (B.) Venture Capital
   (C.) Underwriting (D.) Private Placement
8. There are Basic two types of Private placement like: ________
   (A.) Traditional and Modern (B.) Traditional and Structured
   (C.) Traditional and Unstructured (D.) Fixed and Variable
9. Which source of capital is having costly and time consuming process?
   (A.) Initial Public Offering (B.) Private Placement (C.) Venture Capital (D.) Underwriting
10. Listing of Securities provides ________
    (A.) Proximity (B.) Liquidity (C.) Complexity (D.) None of These
11. ________Capital is also known as a High Risk High Return capital.
    (A.) Initial Public Offering (B.) Venture Capital
    (C.) Underwriting (D.) Private Placement
12. When a company first time sells its shares to a public is known as ________
    (A.) Initial Public Offering (B.) Further Public offering
    (C.) Private Placement (D.) Underwriting
13. Venture Capitalist should raise money by issuing ________
    (A.) Equity Shares (B.) Preference Shares (C.) Debentures (D.) None of These
14. If an Underwriting is done by well known Underwriter then, it may increase the company's________
    (A.) Image (B.) Cost (C.) Transaction cost (D.) Performance
15. The use of personal borrowing to change the overall amount of financial leverage to which an Individual is exposed is called:
    (A.) Homemade leverage. (B.)Dividend recaptures .(C.)The weighted average cost of capital .D Private debt
16. The proposition that the value of the firm is independent of its capital structure is called:
    (A.)The capital asset pricing model. (B.) MM Proposition I. (C.)MM Proposition II.(D.)the law of one price.
17. The proposition that the cost of equity is a positive linear function of capital structure is called:
    (A.)The capital asset pricing model. (B.) MM Proposition I. (C.)MM Proposition II. (D.) the law of one price.
18. The unlevered cost of capital is:
    (A.) The cost of capital for a firm with no equity in its capital structure.
    (B.) The cost of capital for a firm with no debt in its capital structure.
    (C.) The interest tax shield times pre-tax net income.
    (D.) The cost of preferred stock for a firm with equal parts debt and common stock in its capital structure.
19. The cost of capital for a firm, r, WACC, in a zero tax environment is:
    (A.) Equal to the expected earnings divided by market value of the unlevered firm.
    (B.) Equal to the overall rate of return required on the levered firm.

(C.) is constant regardless of the amount of leverage.
(D.) All of the above.

20. The firm's capital structure refers to:
(A.)The way a firm invests its assets.
(B.)The amount of capital in the firm.
(C.) The amount of dividends a firm pays.
(D.)The mix of debt and equity used to finance the firm's assets.

21. A manager should attempt to maximize the value of the firm by:
(A.) Changing the capital structure if and only if the value of the firm increases.
(B.) Changing the capital structure if and only if the value of the firm increases to the benefits to inside management.
(C.) Changing the capital structure if and only if the value of the firm increases only to the benefits the debt holders.
(D.) Changing the capital structure if and only if the value of the firm increases although it decreases the stockholders' value.

22. The effect of financial leverage depends on the operating earnings of the company. Which of the following is not true?
(A.) Below the indifference or break-even point in EBIT the non-levered structure is superior.
(B.) Financial leverage increases the slope of the EPS line.
(C.) Above the indifference or break-even point the increase in EPS for all equity plans is less than debt-equity.
(D.) Above the indifference or break-even point the increase in EPS for all equity plans is greater than debt-equity.

23. When comparing levered vs. unlevered capital structures, leverage works to increase EPS for high levels of EBIT because:
(A.) Interest payments on the debt vary with EBIT levels.
(B.) Interest payments on the debt stay fixed, leaving less income to be distributed over less shares.
(C.) Interest payments on the debt stay fixed, leaving more income to be distributed over less shares.
(D.) interest payments on the debt stay fixed, leaving less income to be distributed over more shares.

24. MM Proposition I with taxes supports the theory that:
(A.)There is a positive linear relationship between the amount of debt in a levered firm and its value.
(B.)The value of a firm is inversely related to the amount of leverage used by the firm.
(C.)The value of an unlevered firm is equal to the value of a levered firm plus the value of the interest tax .
(D.) a firm’s cost of capital is the same regardless of the mix of debt and equity used by the firm.

25 Required rate of return on risk free security is 6%, required rate of return on market portfolio is 11% and firm’s beta is 1.4. Find out cost of Equity capital using CAPM approach.
(A.) 9% (B.) 11% (C.) 10% (D.) 13%

26 A company issued 10% debentures of Rs.100 each at 5% discount. The debentures are to be repaid after 10 years. These debentures are floated at 5% cost. The rate of tax is 55%. Calculate cost of debt using short-cut method.
(A.) 5.25% (B.) 4.21% (C.) 6.30% (D.) 5.79%

27 A company has issued 10% irredeemable preference shares of Rs.100 each. If the shares are issued at 10% premium, What is the cost of preference capital?
(A.) 12% (B.) 8.5% (C.) 8.09% (D.) 9.09%

28 Market price of equity share of a company is Rs.50 and current dividend is Rs.2 per share. The growth rate of dividend is 8% per annum. Calculate cost of equity.
(A.) 12.32% (B.) 18.5% (C.) 11.01% (D.) 10.09%

29 Considering all information same as Q:28, find out equity share market price at the end of first year.
(A.) Rs.52 (B.) Rs.54 (C.) Rs.51 (D.) Rs.51.05

30 Cost of Capital is also known as :
(A.) Rate of Interest (B.) Required Rate of Return (C.) Rate of Tax (D.) Rate of Dividend