MCQ of Corporate Finance

1. Which of the following is **not** one of the three fundamental methods of firm valuation?
a) Discounted Cash flow
b) Income or earnings - where the firm is valued on some multiple of accounting income or earnings.
c) Balance sheet - where the firm is valued in terms of its assets.
d) Market Share

2. What is the value of the firm usually based on?

a) The value of debt and equity.
b) The value of equity.
c) The value of debt.
d) The value of assets plus liabilities.

3. Which of the following defines the market to book value?
a) The ratio of stock market valuation divided by the value of its NAV.
b) The ratio of NAV value divided by stock market valuation.
c) The market value of tangible assets divided by the book value of tangible assets.
d) The market value of intangible assets divided by the book value of intangible assets.

4. Shareholders wealth increases with the increase in ___
a) EPS
b) Market value of the firm
c) Dividend & market value of the firm
d) Market price of the equity share

5. Promotion of welfare of human by corporate is called as_______
a) Social service
b) Philosophy
c) NGO work
d) Corporate philanthropy

6. Leasing of machinery can be categorized as______
a) Fixed asset
b) Investment decision
c) Financing decision
d) Capital budgeting decision

7. A mutually exclusive decision means:

a) Accepting of an alternative, leads to rejecting of other
b) Accepting of both alternatives
c) Rejecting of both alternatives
d) Both c & d

8. Which of the following has Net profit as basis for calculation
a) Net present value
b) Average rate of return
c) Internal rate of return
d) Payback period

9. Internal rate of return is …
a) Rate at which discounted cash inflow is more than discounted cash outflow
b) Rate at which discounted cash inflow is less than discounted cash outflow
c) Rate at which discounted cash inflow is equal to the discounted cash outflow
d) Either a or b

10. Corporate wealth maximization is the value maximization for_____
a) Equity shareholders
b) Stakeholders
c) Employees
d) Debt capital owners

11. Book value of assets includes
a) Fixed assets, current asset
b) Fixed assets, current asset, intangible asset
c) Fixed assets, current asset, fictitious asset
d) Fixed assets, current asset, intangible asset, fictitious asset

12. Listed companies can be valued at
a) Book Value
b) Market value
c) Salvage value
d) Liquidation value

13. Unlisted company can be valued at
a) Net asset Method
b) Market value method
c) Both a & b
d) None of the above

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14. Which of the following valuation methods is based on “Going concern concept”
   a) Market value method
   b) Book value method
   c) Liquidation method
   d) Salvage value method

15. A company has a profit attributable to ordinary shareholders of £100,000. The number of ordinary shares of £1 in issue during the year was 300,000. The market value of the company’s shares at the year end was £6.50. The price/earnings ratio for this company is:

a) 0.05 times
b) 0.33 times
c) 6.5 times
d) 19.5 times

16. What does the price/earnings (PE) ratio measure?

a) The multiple that the stock market places on a company’s earnings
b) The number of times that dividends paid are covered by profits
c) The return received by way of dividends as a percentage of current share price
d) The amount of profits available to ordinary shareholders

17. What does the price-to-earnings ratio (P/E) tell you?

a) How much each of a company's products sells for on average.
b) How much investors are willing to pay per unit of a company's earnings.
c) How much tax per unit investors are willing to pay.
d) None of the above

18. How is the P/E ratio calculated?

a) Market value/quick ratio
b) Earnings per share/market capitalization
c) Market value per share/earnings per share
d) None of the above

19. What is the most important use of the P/E ratio for investors?

a) It helps investors decide how much profit a company is likely to make in future.
b) It helps investors decide whether a company's shares are overpriced or underpriced.
c) It helps investors decide on the most appropriate risk to reward ratio.
d) None of the above

20. What does a high P/E ratio suggest?

a) **A company shares are currently overpriced.**
b) A company shares are currently underpriced.
c) No relation
d) None of the above

21. If a company has a share price of $100 and its earnings per share averaged $2, what is its P/E ratio?
a) 20
b) **50**
c) 80
d) 70

22. If a company's earnings per share is $20 and it has a share price of $600, what is the P/E ratio?
a) 30
b) 40
c) 50
d) 20

23. Making gifts of money, goods, or time to help non-profit organizations, groups or individuals is:

a) Corporate social marketing
b) Cause marketing
c) Cause-related marketing
d) **Corporate philanthropy**

24. The term _____ can be used in a broad sense to describe all the policies, procedures, relationships, and systems in place to oversee the successful and legal operation of the enterprise.

a) corporate governance

b) corporate policy

c) corporate oversight

d) corporate strategy

25. A profitability index (PI) of .92 for a project means that __________.

a) the project's costs (cash outlay) are (is) less than the present value of the project's benefits

b) the project's NPV is greater than zero

c) the project's NPV is greater than 1

d) the project returns 92 cents in present value for each current dollar invested (cost)

26. The LMN Corporation is considering an investment that will cost $80,000 and have a useful life of 4 years. During the first 2 years, the net incremental after-tax cash flows are $25,000 per year and for the last two years they are $20,000 per year. What is the payback period for this investment?

a) 3.2 years.

b) 3.5 years.

c) 4.0 years.

d) Cannot be determined from this information.

27. Bulging Stomach Restaurants, Inc., has estimated that a proposed project's 8-year net cash benefit will be $4,000 per year for years 1 through 8, with an additional terminal benefit of $8,000 at the end of the eighth year. Assuming that these cash inflows satisfy *exactly* Bulging's required rate of return of 8 percent, the project's initial cash outflow is closest to which of the following four possible answers?

a) $27,309

b) $25,149

c) $14,851

d) $40,000

28. Which of the following statements is *incorrect* regarding a normal project?

a) If the NPV of a project is greater than 0, then its PI will exceed 1.

b) If the IRR of a project is 8%, its NPV, using a discount rate, k, greater than 8%, will be less than 0.

c) If the PI of a project equals 0, then the project's initial cash outflow equals the PV of its cash flows.

d) If the IRR of a project is greater than the discount rate, k, then its PI will be greater than 1.

29. Assume that a firm has accurately calculated the net cash flows relating to two mutually exclusive investment proposals. If the net present value of both proposals exceed zero and the firm is not under the constraint of capital rationing, then the firm should __________.

a) calculate the IRRs of these investments to be certain that the IRRs are greater than the cost of capital

b) compare the profitability index of these investments to those of other possible investments

c) calculate the payback periods to make certain that the initial cash outlays can be recovered within a appropriate period of time

d) accept the proposal that has the largest NPV since the goal of the firm is to maximize shareholder wealth and, since the projects are mutually exclusive, we can only take one

30. A project whose acceptance does *not* prevent or require 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) a contingent project

31. When operating under a single-period capital-rationing constraint, you may first want to try selecting projects by descending order of their __________ in order to give yourself the best chance to select the mix of projects that adds most to firm value.

a) **profitability index (PI)**
b) net present value (NPV)
c) internal rate of return (IRR)
d) payback period (PBP)

32. Which of the following statements is correct regarding the internal rate of return (IRR) method?

a) Each project has a unique internal rate of return.
b) **As long as you are not dealing with mutually exclusive projects, capital rationing, or unusual projects having multiple sign changes in the cash-flow stream, the internal rate of return method can be used with reasonable confidence.**
c) The internal rate of return does not consider the time value of money.
d) The internal rate of return is rarely used by firms today because of the ease at which net present value is calculated.

33. Which of the following is *not* a potential for a ranking problem between two mutually exclusive projects?

a) The projects have unequal lives that differ by several years.
b) The costs of the two projects differ by nearly 30%.
c) The two projects have cash flow patterns that differ dramatically.
d) **One of the mutually exclusive projects involves replacement while the other involves expansion.**

34. A project whose acceptance precludes 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) a contingent project.

35. Two mutually exclusive projects are being considered. Neither project will be repeated again in the future after their current lives are complete. There exists a potential problem though -- the expected life of the first project is one year and the expected life of the second project is three years. This has caused the NPV and IRR methods to suggest different project preferences. What technique can be used to help make a better decision in this scenario?

a) **Rely on the NPV method and make your choice as it will tell you which one is best.**
b) Use the common-life technique to replicate the one-year project three times and recalculate the NPV and IRR for the one-year project.
c) Ignore the NPV technique and simply choose the highest IRR since managers are concerned about maximizing returns.
d) In this situation, we need to rely on the profitability index (PI) method and choose the one with the highest PI.

36. High P/E ratios tend to indicate that a company will _______

a) **grow quickly**
b) grow at the same speed as the average company
c) grow slowly
d) not grow

37. _________ is equal to (common shareholders' equity/common shares outstanding).

a) **Book value per share**
b) Liquidation value per share
c) Market value per share
d) Tobin's Q

38. The _______ is defined as the present value of all cash proceeds to the investor in the stock.

a) dividend payout ratio
b) **intrinsic value**
c) market capitalization rate
d) plowback ratio

39. Historically, P/E ratios have tended to be _________.

a) higher when inflation has been high
b) **lower when inflation has been high**
c) uncorrelated with inflation rates but correlated with other macroeconomic variables
d) uncorrelated with any macroeconomic variables including inflation rates

40. All of the following influence capital budgeting cash flows **EXCEPT:**

a) Accelerated depreciation
b) Salvage value
c) Tax rate changes
d) Method of project financing used

41. A capital investment is one that

a) Has the prospect of long term benefit
b) Has the prospect of short term benefit
c) Is only undertaken by large corporations
d) Applies only to investment in fixed assets

42. Companies may adopt an aggressive or a conservative working capital policy. An aggressive policy means that a company

a) holds high levels of cash and inventories
b) expects a lower level of profitability
c) has a low level of flexibility
d) faces a low level of risk

43. Which of the following would be consistent with a more aggressive approach to financing working capital?

a. Financing short-term needs with short-term funds.
b. Financing permanent inventory buildup with long-term debt.
c. Financing seasonal needs with short-term funds.
d. Financing some long-term needs with short-term funds.

44. Which of the following illustrates the use of a hedging (or matching) approach to financing?
a) Short – term assets financed with long term liabilities
b) Permanent working capital financed with long-term liabilities.
c) Short – term assets financed with equity.
d) All assets financed with a 50 percent equity, 50 percent long-term debt mixture.

45. Permanent working capital

a. Varies with seasonal needs.
b. Includes fixed assets.
c. **Is the amount of current assets required to meet a firm's long-term minimum needs.**
d. Includes accounts payable.

46. Which of the following would **not** be financed from working capital?

a) Cash float
b) Accounts receivable
c) Credit sales
d) A new personal computer for the office

47. When economic value added is used as the performance measure, value is only created if the after-tax operating income exceeds

a) cost of investing capital

b) investment

c) working capital

d) sales

48. Which of the performance evaluation methods takes into consideration tax effects?

a) Economic value added

b) Return on sales

c) Residual income

d) Return on investment

49. Which of the following best describes "Market Value Added"?

a) The value added to the product the firm produces above and beyond the costs of the inputs.

b) The difference between the book value of equity and debt versus the market value of the firm.

c) **The difference between the market value of the firm and the amount of contributed capital.**

d) None of the above accurately describes Market Value Added.

50. Market price per share of a firm having equity capital of Rs. 100000 consisting of shares of Rs. 10 each, profit after tax of Rs. 82000, & P/E ratio of 8 is

a) Rs. 65.70
b) Rs.10.25
c) Rs.**65.60**
d) Rs.1.025