FOUNDATIONS OF FINANCE
MAKE UP QUIZ (VARIANT A)

Time Allowed: 35 minutes **Max. Marks 30**

- **This quiz consists of fifteen questions of 2 marks each.**
- **In MCQ question you have to select only one option in each of the questions. 2 marks will be awarded if the correct answer is selected. Negative 1 (-1) for the wrong answer. No marks will be deducted if you leave the question**
- **The question paper has to be returned after the quiz**

1. Ms. Shruti is 45 years old and plans to retire at 60. Her life expectancy is 80 years. Ms. Suman her Financial Planner, estimates that her client will require Rs.540,000 in the first year after retirement (end of year). Inflation rate is 6% p.a. and the rate of return is 10% p.a. What will be the savings per year required in order to meet this? ________________________

2. Gaurav received an inheritance of Rs. 20 Lakh. He wants to withdraw equal periodic payments at the beginning of each month for 10 years starting after 10 years. He expects to earn 12% annual interest, compounded monthly on his investments. How much can he withdraw each month?

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3. A stock's price currently is Rs.100. An analyst forecast the following for the stock:
- The normalised trailing price earnings (P/E) ratio will be 12x
- The stock is expected to pay Rs.5 dividend this coming year on projected earning of Rs.10 per share.

If the analyst were to buy and hold the stock for the year, the projected return based on these forecasts will be:

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4. The following data pertains to a firm's common stock:
- The stock will pay no dividends for 2 years
- The dividend three years from now is expected to be Re.1.
- Dividends are expected to grow at a 7% rate from that point onward.

If an investor requires 17% return on this investment, how much will the investor be willing to pay for this stock now? _________________________________

5. TEN company expects abnormally high returns for the next three years. After 3 years the growth will level off to its normal rate of 6%. Dividends and earnings are expected to grow at 20% for years 1 and 2 and 15% for year 3. The last dividend paid was Rs.1. If an investor requires a 10% return on the company, what is the price that she is willing to pay for the stock ______________________________.

6. A company's common size financial investments show the following information:

Earnings after taxes	15%
Current liabilities	20%
Equity	45%
Sales	Rs.800
Cash	10%
Total Assets	Rs.2,000
Accounts receivable	15%
Inventory	20%

Company's long-term debt to equity ratio is_______________________

Company's current ratio is ___________________________.

7. Weights to be used in calculating a company's weighted average cost of capital are least appropriately based on:

A. Information from the company about its target capital structure
B. The average capital structure weights for companies of a similar size
C. The average capital structure weights for companies in the same industry.

8. The following data pertains to a company's common size financial statements

Current assets	40%
Total debt	40%
Net income	16%
Total Assets	Rs.2,000
Sales	Rs1,500
Total asset turnover	0.75
The firm has no preferred stock	

What is the company's return on common equity? _____________________________

9. You are given the following information about a company

Net sales	4,000
Dividends declared	170
Cost of goods sold	2,000
Inventory increased by	100
Accounts payable increased by	300
Cash expenses for other inputs	500
Long term debt principal repayment	250
Cash tax payments	200
Purchase of new equipment	300

The company's cash flow from operations, based on this data only is _________________

10. Ritz corporation has a current ratio above 1 and a quick ratio less than 1. Which of the following actions will increase the current ratio and decrease the quick ratio? Ritz corporation

A) Buys fixed assets on credit
B) Uses cash to purchase inventory
C) Pays off accounts payable from cash

11. Mt Abu corporation has the following data

Target debt equity ratio for the company is 0.5. Company's bonds are currently yielding 10%. The company's constant growth rate is 5%. It just paid a dividend of Rs.3. The company's share quotes at Rs.31.50 per share. The company's tax rate is 40%

The company's weighted after-tax cost of capital is: ______________________

12. A successful alumnus of your college decided to set up a scholarship for deserving students of the college. Her plan is for the fund to be capable of awarding Rs.250,000 annually in perpetuity. The first scholarship is to be awarded and paid out exactly four years from today. The funds will be deposited into an account immediately and will grow at a rate of 4% compounded semi-annually, for the foreseeable future. How much money must the investor donate today to fund the scholarship?

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13. How will a firm's operating cash flow be affected by a decrease in accounts receivable and by an increase in accounts payable?

A) Both will increase operating cash flow
B) Both will decrease operating cash flow
C) One will increase operating cash flow and one will decrease operating cash flow

14. Plywood Industries reported the following information about the company for the last year

Net Sales	50,000
Cash expenses	3,250
Cash inputs	17,000
Cash taxes	7,000
Increase in receivables	500
Depreciation expense	1,000
Cash flow from investing	-5,000
Cash flow from financing	-4,250

If the cash balance increased by Rs.13,000 over the year, what is the cash flow from operations (CFO)?

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15. Following information is available about a capital budgeting proposal

The proposed project cost is $10,000. The project is expected to increase pre-tax net income by $3,000 in each of the next 8 years. The company has 50% of its capital in equity at a cost of 12%. The pre-tax cost of debt capital is 6%. The company's tax rate is 33%.

The project's NPV is closest to ________________________________.

MARKS TO BE SCALED OUT OF (Tick one)

0	**10**	**20**	**30**	**40**

Left Roll No.___________________________________Right Roll No.________________________

RESPONSE SHEET (VARIANT A)

Name ________________________________

Roll No.

Answers

1		6		11	
2		7		12	
3		8		13	
4		9		14	
5		10		15	