# Finance

## CPA FIN

## Version Demo

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## QUESTION NO: 1

An analysis of the financial statements of a business reveals the following financial ratios:

1. A higher than average inventory holding period

2. A higher than average payment period for trade payables

3. A lower than average current ratio

4. A lower than average sales to working capital ratio

Which TWO of the above is consistent with a business being over-capitalized?

**A.** 1 and 2

**B.** 1 and 4

**C.** 2 and 3

**D.** 3 and 4

**ANSWER: B**

## QUESTION NO: 2

It has been suggested that the capital asset pricing model (CAPM) includes the following assumptions:

1. Unsystematic risk can be eliminated through diversification.

2. The level of systematic risk is the same across all companies.

Which of the following combinations (true/false) is correct?

**A.** Statement 1 = True, Statement 2 = True

**B.** Statement 1 = True, Statement 2 = False

**C.** Statement 1 = False, Statement 2 = True

**D.** Statement 1 = False, Statement 2 = False

**ANSWER: A**

## QUESTION NO: 3

The following statements concerning market efficiency have been made:

1. Only markets which are strong-form efficient will not be affected by ‘creative accounting’ or ‘window dressing’ of accounts.

2. When a market is weak-form efficient, it is possible to predict future share price movements based on past trends of share price movements.

Which of the following combinations (true/false) is correct?

**A.** Statement 1 = True, Statement 2 = True

**B.** Statement 1 = True, Statement 2 = False

**C.** Statement 1 = False, Statement 2 = True

**D.** Statement 1 = False, Statement 2 = False

**ANSWER: D**

**QUESTION NO: 4**

A public listed company has recently declared a dividend of $0.20 per share and maintains a constant dividend payout ratio of 40%. The market value of each share is $4.60 cum div and the nominal value of each share is $4.00.

The company pays 20% tax on its profits.

What is the price earnings ratio (ex div) of the company?

**A.** 8.0 times

**B.** 8.8 times

**C.** 9.2 times

**D.** 11.0 times

**ANSWER: B**

**QUESTION NO: 5**

Companies often invest temporary surplus cash to earn income. Consider the following statements:

1) The main advantage of short-term deposits with finance houses is that they are easily transferable to another investor should the company require cash sooner than previously thought.

2) Treasury bills are short-term instruments issued by government when they need money. They pay a small amount of cash interest on the sum invested.

Which ONE of the following combinations (true/false) is correct?

**A.** Statement 1 = True, Statement 2 = True

**B.** Statement 1 = True, Statement 2 = False

**C.** Statement 1 = False, Statement 2 = True

**D.** Statement 1 = False, Statement 2 = False

**ANSWER: D**

**QUESTION NO: 6**

The management of Uruk Co feels that the company is over-capitalized and have cited the following statements to support their view:

1. Over-capitalization is indicated by lower-than-average sales revenue to working capital ratio.

2. Over-capitalization is indicated by higher-than-average debt to equity ratio.

Which of the following combinations (true/false) concerning the above statements is correct?

**A.** Statement 1 = True, Statement 2 = True

**B.** Statement 1 = True, Statement 2 = False

**C.** Statement 1 = False, Statement 2 = True

**D.** Statement 1 = False, Statement 2 = False

**ANSWER: B**

**QUESTION NO: 7**

Akkadia Co expects sales revenue of $20 million for the coming year. It also aims to achieve the following ratios: current ratio of 2.5:1; sales revenue to current assets of 4:1; and acid test ratio of 2:1.

Based on this, what will be the forecast for inventory?

**A.** $1 million

**B.** $3 million

**C.** $4 million

**D.** $6 million

**ANSWER: A**

**QUESTION NO: 8**

A company has loan notes in issue paying interest at the rate of 6% per year. Interest has just been paid on the loan notes, which are due for repayment in exactly one year's time. The loan notes will be redeemed at $109 per $100 nominal value. A yield of 9% per year is required by investors from the loan notes.

What is the predicted current market value of the loan notes? (To the nearest $ and ignoring taxation)

**A.** $100

**B.** $102

**C.** $106

**D.** $108

**ANSWER: C**

## QUESTION NO: 9

Lydia Co is financed by one million $1 ordinary shares trading at $3 each and has $2,000,000 4·25% irredeemable loan notes which have a market value of $85 per $100. Lydia Co pays tax at 30%. An equivalent all-equity financed company would have a cost of capital of 10%.

What is Lydia Co's cost of equity, according to Modigliani and Miller Proposition 2?

**A.** 12·68%

**B.** 12·33%

**C.** 12·28%

**D.** 11·98%

**ANSWER: D**

## QUESTION NO: 10

Sonoran Co recently evaluated an investment project that had an initial cash outlay followed by positive annual net cash flows over its life. The company employed the internal rate of return (IRR) and discounted payback period (DPP) methods for the investment appraisal. Later, it was discovered that the cost of capital figure used was incorrect and that the correct figure was higher.

What will be the effect on the IRR and DPP of correcting for this error?

**A.** IRR = No change, DPP = No change

**B.** IRR = Increase, DPP = Increase

**C.** IRR = Decrease, DPP = Decrease

**D.** IRR = No change, DPP = Increase

**ANSWER: D**