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Question 1

Question Type: MultipleChoice

M is a listed company. It is hoping to invest in a risky new venture. M has a substantial amount of cash to invest in the venture. M would have found it difficult to raise new finance as it has a high level of gearing. Which of the following statements about stakeholders' conflicting interests are true?

Options:

A- M's shareholders would only be exposed to the systematic risk from the investment in the new venture.

B- M's credit rating is likely to fall as a result of this new venture.

C- The directors would only beexposed to the systematic riskfrom the investment in the new venture.

D- M's diversification will mean less risk for the shareholders.

Answer:

A, B

Question 2

Question Type: MultipleChoice

WhichTWOof the following are benefits of carrying out a post-completion audit of capital projects?

Options:

A- A post-completion audit can help find out who was to blame for a project exceeding the budget.

B- A post-completion audit can help management understand what went wrong with a project in order to try and prevent the same problem occurring in the future.

C- A post-completion audit can help find out where a project went wrong so it can be fixed immediately.

D- A post-completion audit can investigate variances from the budget on completed projects.

Answer:

B, D

Question 3

Question Type: MultipleChoice

Return on capital employed (ROCE) can be a useful measureofdivisional performance.For which of the following types of company is ROCE likely to be most appropriate?

Options:

A- Companies in which there is extensive investment in intellectual property and intangible assets, such as brands and trade marks.

B- Companies in which there is extensive investment in physical assets, such as plant and machinery, with divisions which undertake broadly similar activities.

C- Companies which havebeen created by extensive acquisition and merger activity and include divisions engaged in a variety of activities.

D- Companies in the not-for-profit sector.

Answer:

B

Question 4

Question Type: **MultipleChoice**

A capital investment project shows a NPV of 3,450 at a discounted rate of 8% and an NPV of 1,210 at a discounted rate of 9%.

Whatistheinternal rate ofreturn?

Options:

A- 11.85%

B- 10.85%

C- 10.54%

D- 9.54%

Answer:

D

Question 5

Question Type: MultipleChoice

P Ltd, a manufacturing company, is considering a new capital investment project to set up a new production line. The initial appraisal shows a healthy net present value of $6,465 millionat a discount rate of 10% as shown in the table below:

However, management is unsure about the demand for theproduct which will be produced and has insisted that the future revenues should be reduced to certainity equivalents by taking 70%, 65% and 60% of the years 1,2, and 3 cash inflows respectively.

What should P do?

Options:

A- Proceed with the project, it has a healthy net present value.

B- Stop the project, it has considerable risk.

C- Put pressure on sales and marketing to re-verify their forecasts.

D- Re-appraise the project using other capital appraisal techniques to get a more balanced view.

Answer:

D

Question 6

Question Type: MultipleChoice

A project has a net present value of $2 million.

Total cash outflows of this project have a present value of $14 million, which includes staff costs of $10 million.

What is the project's sensitivity to staff costs?

Options:

A- 20%

B- 63%

C- 71%

D- 14%

Answer:

A

Question 7

Question Type: MultipleChoice

A project requires a capital investment of 2.7million. The project will save 450,000 each year after taxation. Assume the savings are in perpetuity. The business risk of the venture requires a 15% discount rate. The company has to borrow 1million to finance the project at a rate of 9% and the net tax shield is 30%, the project supports debt which generates an interest tax shield of 0.30 x 0.09 x 1million, which is 27,000 per year in perpetuity.

Calculate the project'sadjustedpresentvalue.

Options:

A- (30,000)

B- 0

C- 570,000

D- 600,000

Answer:

D

Question 8

Question Type: **MultipleChoice**

The treasurer of IOK is considering entering into a money market hedge in order to hedge a payable.

Which of the following might be valid explanations for the use of a money market hedge for this purpose?

Options:

A- There are no forward contracts available for the purchase of the payable currency using IOK's home currency.

B- The timing of the payable does not permit the use of a forward contract.

C- The relevant currency markets are very thinly traded and the treasurer believes that forward contracts are mispriced.

D- A money market hedge is easier and less expensive to organise than a future or forward contract.

E- Money market hedges can be unwound whereas positions in derivatives cannot.

Answer:

A, B, C

Question 9

Question Type: FillInTheBlank

SDF has a variable rate loan of $100 million on which it is paying interest of LIBOR + 2%.

SDF entered into a swap with CV bank to convert this to a fixed rate 7% loan. CV bank charges an annual commission of 0.3% for making this arrangement.

Calculate the net payment from SDF to CV bank at the end of the first year if LIBOR was 3% throughout the year.

Give your answer in $ million, to one decimal place.

Answer:

Question 10

Question Type: MultipleChoice

Which of the following are true of interest rate swaps?

Options:

A- Risk of default is high from the floating interest rate payer if interest rates rise.

B- An interest rate swap is an external hedging technique.

C- When interest rates are falling, the risk of default by the fixed interest rate payer is low.

D- Some companies use interest rate swaps to deliberately increase their risks because they believe that they are better at predicting future interest rates than the market.

E- An interest rate swap is an internal hedging technique.

Answer:

A, B, D

Question 11

Question Type: FillInTheBlank

A US company has to pay 500,000 for a new machine.

You have the following information on currencies.

EUR1 = 1.2300

EUR 1= USD1.6200

What is the cost of the machine in USD?

Give your answer to the nearest $.

Answer:

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