



LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

B.Com. DEGREE EXAMINATION – ACCOUNTING AND FINANCE

FOURTH SEMESTER – APRIL 2022

UAF 4502 – STRATEGIC FINANCIAL MANAGEMENT - II

Date: 20-06-2022

Dept. No.

Max. : 100 Marks

Time: 09:00 AM - 12:00 NOON

PART – A

Q. No	Answer ALL Multiple Choice Questions (70 x 1 = 70 Marks)								
1	<p>What branch of moral philosophy claims that what is good is right comes from the action itself, independent of the consequences?</p> <table border="1"><tr><td>A</td><td>Utilitarianism.</td></tr><tr><td>B</td><td>Teleology.</td></tr><tr><td>C</td><td>Relativism.</td></tr><tr><td>D</td><td>Deontology.</td></tr></table>	A	Utilitarianism.	B	Teleology.	C	Relativism.	D	Deontology.
A	Utilitarianism.								
B	Teleology.								
C	Relativism.								
D	Deontology.								
2	<p>Assertion (A): Virtuous Manager is a good manager. Reasoning (R): A Good manager does more than following company's ethical guidelines</p> <table border="1"><tr><td>A</td><td>Both (A) and (R) are true, and (R) is the correct explanation of (A)</td></tr><tr><td>B</td><td>Both (A) and (R) are true, and (R) is not the correct explanation of (A)</td></tr><tr><td>C</td><td>(A) is true, but (R) is False</td></tr><tr><td>D</td><td>(A) is false, but (R) is True</td></tr></table>	A	Both (A) and (R) are true, and (R) is the correct explanation of (A)	B	Both (A) and (R) are true, and (R) is not the correct explanation of (A)	C	(A) is true, but (R) is False	D	(A) is false, but (R) is True
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D	(A) is false, but (R) is True								
3	<p>Government officials in Country M are supposed to be compensated fairly in order to support the delivery of routine services. A payment to accelerate the issuance of a license to conduct an import-export firm is an example. Even applicants who complete all legal criteria, including payment of statutory fees, often make these facilitation contributions. Such payments are considered ethical in Country M. Such payments are considered immoral and unlawful in the Country N. Which discipline of moral philosophy is most likely to regard both ethical judgements of facilitation payments to be correct?</p> <table border="1"><tr><td>A</td><td>Deontology</td></tr><tr><td>B</td><td>Virtue Ethics</td></tr><tr><td>C</td><td>Social Justice</td></tr><tr><td>D</td><td>Relativism</td></tr></table>	A	Deontology	B	Virtue Ethics	C	Social Justice	D	Relativism
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4	<p>_____ is a notion in corporate ethics that entails making judgments without consideration for personal sentiments or ideas.</p> <table border="1"><tr><td>A</td><td>Relativism</td></tr><tr><td>B</td><td>Integrity.</td></tr><tr><td>C</td><td>Fairness.</td></tr><tr><td>D</td><td>Social justice.</td></tr></table>	A	Relativism	B	Integrity.	C	Fairness.	D	Social justice.
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5	<p>What is ethical behavior at Work?</p> <table border="1"><tr><td>A</td><td>Fiduciary Responsibility</td></tr></table>	A	Fiduciary Responsibility						
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	B	Integrity
	C	Fairness
	D	Due Diligence
6	<p>A corporation just submitted a budget for the future year to management. Plans for a new product, a rechargeable fan, were included in the budget. Not only will the new fan survive longer than the competitor's product, but it will also be quieter. Despite the fact that the budget had not yet been authorized, it called for strong promotion to promote the firm's sales ambitions, as the business world was unaware that the company was near to producing a new fan. A distributor and a member of the management accounting staff "shared" the budget. Which of the following, according to the IMA Statement of Ethical Professional Practice, would best suggest an ethical issue in this situation?</p>	
	A	The price has not been established, so expectations must be managed.
	B	The budget has not been approved and therefore is not for publication.
	C	The employee should refrain from disclosing confidential information.
	D	The staff member exposed the company to a potential lawsuit.
7	<p>Which of the following laws has an important impact on the ethical environment of a company?</p>	
	A	Private Securities Litigation Reform Act of 1995
	B	Foreign Corrupt Practices Act (FCPA)
	C	Securities Act of 1933
	D	Regulation Fair Disclosure (FD)
8	<p>Which of the following ethics-related leadership behaviors best supports managers and supervisors' successful implementation of a code of ethics?</p>	
	A	Setting a good example, keeping promises and commitments, and supporting others in adhering to ethics standards.
	B	Establishing a code of conduct, deploying ethics training, and monitoring ethical behavior.
	C	Hiring ethical employees, identifying gaps between ethical behavior and actual behavior, and punishing ethical lapses.
	D	Implementing internal controls, establishing a whistle blower framework, and developing survey tools.
9	<p>Which of the following provisions are covered in the U.S. Foreign Corrupt Practices Act?</p> <p>I. Illegal payments to foreign officials to assist in obtaining business.</p> <p>II. Transparency of accounting records reflecting all transactions.</p> <p>III. Payments to agents for the purpose of influencing foreign officials.</p> <p>IV. Maintenance of an adequate system of internal controls.</p>	
	A	I, II, III, and IV.
	B	I only.
	C	II, III, and IV only.
	D	I and III only.
10	<p>A publicly listed corporation in the United States has released its corporate social responsibility (CSR) report. The quantity of renewable resources used in its goods was mentioned in the report.</p>	

	Which of the following is not a cause for disclosing the information?
A	The company was required by law to file a report with this disclosure.
B	The report can be used as a marketing tool for the company's products
C	The report can be used to differentiate the company from its competitors.
D	The company may be able to charge a premium and gain customer loyalty.
11	What is the most fundamental level of corporate social responsibility (CSR)? Legal responsibilities. Economic responsibilities. Ethical responsibilities.
A	Legal responsibilities
B	Economic responsibilities
C	Ethical responsibilities.
D	Philanthropic responsibilities.
12	Which one of the following would be most effective in deterring the commission of fraud?
A	Hiring ethical employees, employee training, and segregation of duties.
B	Policies of strong internal control, segregation of duties, and requiring employees to take vacations.
C	Employee training, segregation of duties, and punishment for unethical behavior.
D	Policies of strong internal control and punishments for unethical behavior.
13	In order to keep corporations, what legislation prevents U.S. corporations from paying bribes to foreign officials?
A	Foreign Corrupt Practices Act.
B	North American Free Trade Agreement.
C	Federal Ethical Standards Act.
D	Robinson-Patman Act.
14	Which of the following methods can be used as a tool to identify process controls related to ethical or behavioral issues?
A	Sensitivity Analysis
B	Ratio Analysis
C	Decision Trees
D	Business Process re-engineering
15	Which of the following statements describe the importance of a Whistleblowing Hotline in maintaining an ethical organizational culture?
	I. Provides measurable feedback for determining whether employees are following a code of ethics.
	II. Creates opportunities to enhance and improve internal controls.
	III. Empowers management to become better role models for employees.
	IV. Helps to identify potential errors or risks at each task level within the organization
A	II and IV only.
B	III and IV only
C	I, III and IV only.
D	I and II only.

16	<p>All of the following are benefits that will result when a company invests in efforts to create a values-based organizational culture except</p> <table border="1"> <tr> <td data-bbox="183 134 287 190">A</td> <td data-bbox="287 134 1508 190">Better teamwork</td> </tr> <tr> <td data-bbox="183 190 287 246">B</td> <td data-bbox="287 190 1508 246">Higher levels of productivity through motivated, engaged employees</td> </tr> <tr> <td data-bbox="183 246 287 302">C</td> <td data-bbox="287 246 1508 302">Less fraud through a sense of ownership and identification with the company</td> </tr> <tr> <td data-bbox="183 302 287 414">D</td> <td data-bbox="287 302 1508 414">Lower government taxes because of aggressive and spirited defense of the company towards tax authorities by motivated employees.</td> </tr> </table>	A	Better teamwork	B	Higher levels of productivity through motivated, engaged employees	C	Less fraud through a sense of ownership and identification with the company	D	Lower government taxes because of aggressive and spirited defense of the company towards tax authorities by motivated employees.																									
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17	<p>Due to the prohibition of which of the following option, the United Kingdom Bribery Act (UKBA) of 2010 is analogous to the Foreign Corrupt Practices Act (FCPA) of 1977?</p> <table border="1"> <tr> <td data-bbox="183 504 287 560">A</td> <td data-bbox="287 504 1508 560">Bribery of a foreign official</td> </tr> <tr> <td data-bbox="183 560 287 616">B</td> <td data-bbox="287 560 1508 616">Failure to prevent bribery.</td> </tr> <tr> <td data-bbox="183 616 287 672">C</td> <td data-bbox="287 616 1508 672">Commercial bribery.</td> </tr> <tr> <td data-bbox="183 672 287 728">D</td> <td data-bbox="287 672 1508 728">Passive bribery.</td> </tr> </table>	A	Bribery of a foreign official	B	Failure to prevent bribery.	C	Commercial bribery.	D	Passive bribery.																									
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18	<p>When is it permissible for an IMA member to share sensitive information with persons or authorities outside of the firm?</p> <table border="1"> <tr> <td data-bbox="183 817 287 873">A</td> <td data-bbox="287 817 1508 873">An ethical conflict exists and the board has refused to act.</td> </tr> <tr> <td data-bbox="183 873 287 985">B</td> <td data-bbox="287 873 1508 985">The IMA member knowingly communicates the information indirectly through a subordinate.</td> </tr> <tr> <td data-bbox="183 985 287 1041">C</td> <td data-bbox="287 985 1508 1041">Such communication is legally required.</td> </tr> <tr> <td data-bbox="183 1041 287 1153">D</td> <td data-bbox="287 1041 1508 1153">An officer at the IMA member's bank has requested information on a transaction that could influence the firm's stock price.</td> </tr> </table>	A	An ethical conflict exists and the board has refused to act.	B	The IMA member knowingly communicates the information indirectly through a subordinate.	C	Such communication is legally required.	D	An officer at the IMA member's bank has requested information on a transaction that could influence the firm's stock price.																									
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19	<p>A company has the following financial information for its divisions</p> <table border="1"> <thead> <tr> <th></th> <th><u>Alcohol</u></th> <th><u>Soft Drink</u></th> <th><u>Juice</u></th> <th><u>Total</u></th> </tr> </thead> <tbody> <tr> <td>Sales</td> <td>\$700,000</td> <td>\$430,000</td> <td>\$270,000</td> <td>\$1,400,000</td> </tr> <tr> <td>Variable cost</td> <td>280,000</td> <td>150,000</td> <td>170,000</td> <td>600,000</td> </tr> <tr> <td>Fixed costs</td> <td><u>300,000</u></td> <td><u>100,000</u></td> <td><u>120,000</u></td> <td><u>520,000</u></td> </tr> <tr> <td>Operating income (loss)</td> <td><u>\$120,000</u></td> <td><u>\$180,000</u></td> <td><u>\$ (20,000)</u></td> <td><u>\$ 280,000</u></td> </tr> </tbody> </table> <p>Which one of the following options reflects the current contribution margin ratio for each of the company's business segments?</p> <table border="1"> <tr> <td data-bbox="183 1512 287 1568">A</td> <td data-bbox="287 1512 1508 1568">Alcohol – 60%; Soft drinks – 65%; Juice – 37%</td> </tr> <tr> <td data-bbox="183 1568 287 1624">B</td> <td data-bbox="287 1568 1508 1624">Alcohol – 60%; Soft drinks – 35%; Juice – 63%</td> </tr> <tr> <td data-bbox="183 1624 287 1680">C</td> <td data-bbox="287 1624 1508 1680">Alcohol – 40%; Soft drinks – 65%; Juice – 37%</td> </tr> <tr> <td data-bbox="183 1680 287 1736">D</td> <td data-bbox="287 1680 1508 1736">Alcohol – 40%; Soft drinks – 35%; Juice – 63%</td> </tr> </table>		<u>Alcohol</u>	<u>Soft Drink</u>	<u>Juice</u>	<u>Total</u>	Sales	\$700,000	\$430,000	\$270,000	\$1,400,000	Variable cost	280,000	150,000	170,000	600,000	Fixed costs	<u>300,000</u>	<u>100,000</u>	<u>120,000</u>	<u>520,000</u>	Operating income (loss)	<u>\$120,000</u>	<u>\$180,000</u>	<u>\$ (20,000)</u>	<u>\$ 280,000</u>	A	Alcohol – 60%; Soft drinks – 65%; Juice – 37%	B	Alcohol – 60%; Soft drinks – 35%; Juice – 63%	C	Alcohol – 40%; Soft drinks – 65%; Juice – 37%	D	Alcohol – 40%; Soft drinks – 35%; Juice – 63%
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20	<p>Ice makers for refrigerators are manufactured by Refrigerator Company. The following are the costs per unit for a total of 20,000 ice-makers: Direct materials \$ 7 Direct labor 12 Variable overhead 5 Fixed overhead 10 Total costs \$34 Refrigerator Company has accepted Cool Compartments, Inc.'s offer to sell 20,000 ice-makers for \$28 per unit. If Refrigerator accepts Cool Compartments' offer, the ice-maker manufacturing factory has two options: it may either be idled or retooled to create water filtering devices. Revenues from the sale of water filtration devices are expected to be \$80,000 if Refrigerator retools its current factory, with variable expenses accounting for 60% of sales. Furthermore, the fixed overhead associated with the production of ice-makers might be reduced by \$6 per unit. For Refrigerator Company to determine the most appropriate action to take in this situation, the total relevant costs of make vs. buy, respectively, are</p>																																	

A	\$600,000 vs. \$560,000.
B	\$648,000 vs. \$528,000.
C	\$680,000 vs. \$440,000.
D	\$600,000 vs. \$528,000.

21	Current business segment operations for Whitman, a mass retailer, are presented below				
		Merchandise	Automotive	Restaurant	Total
	Sales	\$500,000	\$400,000	\$100,000	\$1,000,000
	Variable costs	300,000	200,000	70,000	570,000
	Fixed costs	100,000	100,000	50,000	250,000
	Operating income (loss)	\$100,000	\$100,000	\$(20,000)	\$ 180,000
	Management is contemplating the discontinuance of the Restaurant segment since “it is losing money.” If this segment is discontinued, \$30,000 of its fixed costs will be eliminated. In addition, Merchandise and Automotive sales will decrease 5% from their current levels. What will Whitman’s total contribution margin be if the Restaurant segment is discontinued?				
	A	\$160,000			
	B	\$220,000			
	C	\$367,650			
	D	\$380,000			

22	In a joint manufacturing process, joint costs incurred prior to a decision as to whether to process the products after the split-off point should be viewed as	
	A	Sunk costs
	B	Relevant costs
	C	Standard costs.
	D	Differential costs

23	A corporation distributes refrigeration components in the United States as well as to a subsidiary in France. Part No. 456, for example, has a variable production cost of \$30. The component can be marketed in the United States or transported to a French subsidiary for use in the production of a home subassembly. The data relevant to Part No. 456 is listed below. Part No. 456 Domestic selling price \$65 Shipping charges to France 15 Cost of acquiring Part No. 456 in France 75 French residential subassembly: Sales price 170 Other additional manufacturing costs 55 Units shipped to France 150,000* *If deemed preferable, these units could be sold in the U.S. The appropriate income tax rates for the corporation are 40% in the United States and 70% in France. Part No. 456 will be transferred to the French subsidiary at either variable production cost or market pricing in France. Which of the following tactics should be advised to the company's management based on this information?	
	A	Transfer 150,000 units at \$30 and the French subsidiary pays the shipping costs.
	B	Transfer 150,000 units at \$65 and the French subsidiary pays the shipping costs.
	C	Transfer 150,000 units at \$65 and have the U.S. company absorb the shipping costs.
	D	Sell 150,000 units in the U.S. and the French subsidiary obtains Part No. 456 in France

24	Abba Co., a monopolist, has a marginal cost of \$18 and a marginal income of \$21 at its present output. Abba will maximize profits by	
	A	Decreasing price and increasing production
	B	Increasing price while keeping production constant.

	C	Decreasing both price and production.
	D	Increasing both price and production.
25	If a good's demand is elastic and price increases:	
	A	An increase in total revenue.
	B	A decrease in total revenue.
	C	No change in total revenue.
	D	Increase in total revenue and the demand curve shifts to the right.
26	A new product has projected verifiable costs of \$990,000 based on possible sales of 500 units per year. What should the goal pricing be to achieve a 15% profit margin on sales?	
	A	\$1,935
	B	\$1,980
	C	\$2,329
	D	\$2,277
27	Increase in consumer income and wealth would lead to: I. Shift in demand curve of inferior goods to left. II. Shift in demand curve of normal goods to left. III. Shift in demand curve of inferior goods to right. IV. Shift in demand curve of normal goods to right.	
	A	I and II only.
	B	I and IV only.
	C	II and III only.
	D	None of the above.
28	If a product's price elasticity of demand is greater than one, then a 1% price increase will cause the quantity demanded to	
	A	increase by more than 1%
	B	decrease by more than 1%
	C	decrease by less than 1%
	D	increase by less than 1%
29	Market equilibrium is the point at which:	
	A	The consumer's budget constraint line intersects the highest possible indifference curve.
	B	Demand and supply curves intersect.
	C	The supply curve touches the y-axis.
	D	The cross-elasticity is one.
30	Supply curve is a graphic representation of relationship between	
	A	Price and quantity demanded for a product.
	B	Price of a product and supply of a complementary product.
	C	Quantity supplied and price of a product.
	D	Price of a product and supply of a supplementary product.

31	<p>All of the following statements about product life-cycle pricing are correct except that price is maintained by introducing new features to differentiate the product in the later stages.</p> <table border="1"> <tr> <td data-bbox="193 129 288 185">A</td> <td data-bbox="300 129 1481 185">is set to cover costs incurred from the time when the product is manufactured.</td> </tr> <tr> <td data-bbox="193 185 288 241">B</td> <td data-bbox="300 185 1481 241">may be set low to penetrate the market when the product is first introduced.</td> </tr> <tr> <td data-bbox="193 241 288 297">C</td> <td data-bbox="300 241 1481 297">is maintained by introducing new features to differentiate the product in the later stages.</td> </tr> <tr> <td data-bbox="193 297 288 353">D</td> <td data-bbox="300 297 1481 353">may be set high to skim the market when the product is first introduced.</td> </tr> </table>	A	is set to cover costs incurred from the time when the product is manufactured.	B	may be set low to penetrate the market when the product is first introduced.	C	is maintained by introducing new features to differentiate the product in the later stages.	D	may be set high to skim the market when the product is first introduced.
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32	<p>A company has recently produced a new product with a \$30 production cost. For this new product, the Marketing Director has selected three marketing techniques. Approach X Set the selling price at \$36 and have the company's salespeople sell it for a 10% fee with no promotion. Annual sales are expected to reach about 10,000 units. Approach Y Set the selling price at \$38, have the company's salespeople sell the product for a 10% commission, and back them up with a \$30,000 advertising campaign. Annual sales are expected to reach around 12,000 units. Approach Z The product should be handled by wholesalers. The firm would charge wholesalers \$32 per unit for the new product and suffer no selling costs. Annual sales are expected to reach around 14,000 units. Sort the three options by net profit, starting with the highest and ending with the lowest.</p> <table border="1"> <tr> <td data-bbox="193 689 288 745">A</td> <td data-bbox="300 689 1481 745">X, Y, Z</td> </tr> <tr> <td data-bbox="193 745 288 801">B</td> <td data-bbox="300 745 1481 801">Y, Z, X.</td> </tr> <tr> <td data-bbox="193 801 288 857">C</td> <td data-bbox="300 801 1481 857">Z, X, Y.</td> </tr> <tr> <td data-bbox="193 857 288 913">D</td> <td data-bbox="300 857 1481 913">Z, Y, X.</td> </tr> </table>	A	X, Y, Z	B	Y, Z, X.	C	Z, X, Y.	D	Z, Y, X.
A	X, Y, Z								
B	Y, Z, X.								
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33	<p>In the near future, an organization has concluded that the dramatic increase in its variable borrowing interest rate. As a result, by locking in a fixed rate, the corporation was able to hedge its variable rate for the duration of the contract. This option, according to COSO, is "which form of risk response?"</p> <table border="1"> <tr> <td data-bbox="193 1059 288 1115">A</td> <td data-bbox="300 1059 1481 1115">Sharing.</td> </tr> <tr> <td data-bbox="193 1115 288 1171">B</td> <td data-bbox="300 1115 1481 1171">Avoidance.</td> </tr> <tr> <td data-bbox="193 1171 288 1227">C</td> <td data-bbox="300 1171 1481 1227">Reduction.</td> </tr> <tr> <td data-bbox="193 1227 288 1283">D</td> <td data-bbox="300 1227 1481 1283">Acceptance.</td> </tr> </table>	A	Sharing.	B	Avoidance.	C	Reduction.	D	Acceptance.
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34	<p>As a risk analysis approach, the best explanation of scenario analysis is that it is a strategy that</p> <table border="1"> <tr> <td data-bbox="193 1328 288 1384">A</td> <td data-bbox="300 1328 1481 1384">Changes a key variable to assess the impact.</td> </tr> <tr> <td data-bbox="193 1384 288 1440">B</td> <td data-bbox="300 1384 1481 1440">Applies predetermined probability distributions to estimate risky outcomes.</td> </tr> <tr> <td data-bbox="193 1440 288 1496">C</td> <td data-bbox="300 1440 1481 1496">Combines negatively correlated assets to reduce overall risk</td> </tr> <tr> <td data-bbox="193 1496 288 1541">D</td> <td data-bbox="300 1496 1481 1541">Evaluates the impact of changing a group of assumptions.</td> </tr> </table>	A	Changes a key variable to assess the impact.	B	Applies predetermined probability distributions to estimate risky outcomes.	C	Combines negatively correlated assets to reduce overall risk	D	Evaluates the impact of changing a group of assumptions.
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35	<p>When an enterprise is not able to identify a response to reduce the risk to an acceptable level of severity, an enterprise would</p> <table border="1"> <tr> <td data-bbox="193 1619 288 1675">A</td> <td data-bbox="300 1619 1481 1675">Avoid the risk.</td> </tr> <tr> <td data-bbox="193 1675 288 1731">B</td> <td data-bbox="300 1675 1481 1731">Pursue the risk.</td> </tr> <tr> <td data-bbox="193 1731 288 1787">C</td> <td data-bbox="300 1731 1481 1787">Accept the risk.</td> </tr> <tr> <td data-bbox="193 1787 288 1821">D</td> <td data-bbox="300 1787 1481 1821">Transfer the risk.</td> </tr> </table>	A	Avoid the risk.	B	Pursue the risk.	C	Accept the risk.	D	Transfer the risk.
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36	<p>Which of the following steps in the risk management process is not considered a crucial step?</p> <table border="1"> <tr> <td data-bbox="193 1865 288 1921">A</td> <td data-bbox="300 1865 1481 1921">Current risks.</td> </tr> <tr> <td data-bbox="193 1921 288 1977">B</td> <td data-bbox="300 1921 1481 1977">Prioritize risks.</td> </tr> <tr> <td data-bbox="193 1977 288 2033">C</td> <td data-bbox="300 1977 1481 2033">Formulate risk responses.</td> </tr> <tr> <td data-bbox="193 2033 288 2089">D</td> <td data-bbox="300 2033 1481 2089">Assess risks</td> </tr> </table>	A	Current risks.	B	Prioritize risks.	C	Formulate risk responses.	D	Assess risks
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37	Each of the following is an enterprise risk management (ERM) limitation, except								

	A	ERM deals with risk, which relates to the future and is inherently uncertain.
	B	ERM operates at different levels with respect to different objectives.
	C	ERM is as effective as the people responsible for its functioning.
	D	ERM can provide absolute assurance with respect to objective categories.
38	The information technology section of a big international corporation is now based in Germany. The corporation decided to split the information technology department into two geographically different sites and establish a new facility in Singapore to lessen the chance of system failure. Even if the organization still faces a catastrophic system failure, the risk is significantly decreased. The risk that remains after the company sets up the second information technology department in Singapore is best described as	
	A	Residual risk.
	B	Business risk.
	C	Hazard risk.
	D	Inherent risk.
39	Which of the following COSO ERM framework components is a supporting component?	
	A	Governance and culture; review and revision
	B	Performance; review and revision.
	C	Strategy and objective-setting; performance.
	D	Governance and culture; information, communication, and reporting.
40	In corporate risk management, it is critical to provide information about hazards. Which of the following individuals is most likely to see difficulties linked to client product design demands as they arise?	
	A	Risk manager.
	B	Production manager
	C	Internal auditor.
	D	Sales representative.
41	To help it develop, defend, and increase shareholder value, a company has built a risk management approach. Which of the following is the most appropriate sequence for that risk process?	
	A	Event identification, objective setting, risk assessment, risk response.
	B	Objective setting, event identification, risk assessment, risk response.
	C	Risk assessment, risk response, objective setting, event identification
	D	Risk assessment, objective setting, event identification, risk response.
42	Even though a company implements an enterprise risk management program, it still is likely to have risk. This risk is considered	
	A	Tolerable risks.
	B	Inherent risks.
	C	Residual risks
	D	Uninsurable risks.
43	According to COSO, the role or internal entity most equipped to create and implement risk procedures for a specific department as part of the enterprise risk management process is	

	A	A manager within the department.
	B	The audit committee.
	C	The internal audit department.
	D	The chief executive officer
44	Management's responsibilities in ERM framework include:	
	A	Significant business decisions including M&A, capital allocations, funding, and dividend-related decisions.
	B	Making unqualified opinion that the financial statements prepared are free of material error and any deviations from GAAP.
	C	Making project planning, budgeting, enterprise strategy & objective-setting.
	D	Enhancing the conversation with the board and stakeholders about using ERM to gain a competitive advantage.
45	A profit-maximizing monopolist will produce at an output level were.	
	A	Marginal revenue equals marginal cost
	B	Demand equals average total cost.
	C	Marginal revenue equals average total cost.
	D	Marginal cost equals average total cost.
46	Demand curve for medicines that have few substitutes and the patient needs them no matter the cost is best explained as:	
	A	Inelastic.
	B	Elastic.
	C	Perfectly inelastic.
	D	Perfectly elastic.
47	A firm adds 30% to the manufacturing cost per unit when pricing its primary product. Variable manufacturing expenses are \$12 per unit, variable selling and administrative costs are \$1 per unit, and the company's fixed production costs are \$2,000,000 every quarter. 50,000 units were expected to be sold in the first quarter. With similar competitors providing a selling price of \$60 per unit, the company's market has grown more competitive. As a result, demand for the company's goods has fallen, resulting in real quarterly sales of 40,000 units. The company's selling price per unit for the next quarter should be	
	A	\$80.60
	B	\$67.60
	C	\$60.00
	D	\$63.00
48	The demand curve for a product reflects which of the following?	
	A	The impact of prices on the amount of product offered.
	B	The willingness of producers to offer a product at alternative prices.
	C	The impact that price has on the amount of a product purchased.
	D	The impact that price has on the purchase amount of two related products.
49	Which one of the following would cause the demand curve for bagels to shift to the left?	
	A	A decrease in the cost of muffins.
	B	An increase in the population

	C	A decrease in the price of bagels																																				
	D	An increase in the supply of bagels.																																				
50	A company that operates within an oligopolistic industry decides to lower its prices. Assuming industry demand levels remain constant, as a result of the decrease in price, total expected profits among all companies within the industry are expected to																																					
	A	Remain unchanged																																				
	B	Increase.																																				
	C	Cannot be determined.																																				
	D	Decrease.																																				
51	A financial analyst employs a technique called repeated sampling to establish a distribution of possible results while generating a multi-year revenue projection. Which of the following is most likely being used by the analyst?																																					
	A	Monte Carlo Simulation																																				
	B	Sensitivity Analysis																																				
	C	Scenario Analysis																																				
	D	Activity Analysis.																																				
52	Two mutually exclusive capital expenditure projects have the following characteristics																																					
		<table border="1"> <thead> <tr> <th></th> <th>Project A</th> <th>Project B</th> </tr> </thead> <tbody> <tr> <td>Investment</td> <td>\$100,000</td> <td>\$150,000</td> </tr> <tr> <td>Net cash inflow - Year 1</td> <td>40,000</td> <td>80,000</td> </tr> <tr> <td>Year 2</td> <td>50,000</td> <td>70,000</td> </tr> <tr> <td>Year 3</td> <td>60,000</td> <td>60,000</td> </tr> </tbody> </table>		Project A	Project B	Investment	\$100,000	\$150,000	Net cash inflow - Year 1	40,000	80,000	Year 2	50,000	70,000	Year 3	60,000	60,000																					
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	All cash flows are received at the end of the year. Based on this information, which one of the following statements is not correct?																																					
	A	The net present value of Project A at a cost of capital of 10% is \$22,720.																																				
	B	The net present value of Project B at a cost of capital of 12% is \$19,950																																				
	C	The internal rate of return of Project B is greater than the internal rate of return of Project A.																																				
	D	The payback years for Project A is greater than the payback years for Project B																																				
53	Lunar Inc. is considering the purchase of a machine for \$500,000 which will last 5 years. A financial analysis is being developed using the following information.																																					
		<table border="1"> <thead> <tr> <th></th> <th>Year 1</th> <th>Year 2</th> <th>Year 3</th> <th>Year 4</th> <th>Year 5</th> </tr> </thead> <tbody> <tr> <td>Unit sales</td> <td>10,000</td> <td>10,000</td> <td>20,000</td> <td>20,000</td> <td>20,000</td> </tr> <tr> <td>Selling price per unit</td> <td>\$ 100</td> <td>\$ 100</td> <td>\$ 100</td> <td>\$ 100</td> <td>\$ 100</td> </tr> <tr> <td>Variable cost per unit</td> <td>65</td> <td>65</td> <td>65</td> <td>65</td> <td>65</td> </tr> <tr> <td>Fixed costs</td> <td>300,000</td> <td>300,000</td> <td>300,000</td> <td>300,000</td> <td>300,000</td> </tr> <tr> <td>Pre-tax cash flow</td> <td>50,000</td> <td>50,000</td> <td>400,000</td> <td>400,000</td> <td>400,000</td> </tr> </tbody> </table>		Year 1	Year 2	Year 3	Year 4	Year 5	Unit sales	10,000	10,000	20,000	20,000	20,000	Selling price per unit	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	Variable cost per unit	65	65	65	65	65	Fixed costs	300,000	300,000	300,000	300,000	300,000	Pre-tax cash flow	50,000	50,000	400,000	400,000	400,000
	Year 1	Year 2	Year 3	Year 4	Year 5																																	
Unit sales	10,000	10,000	20,000	20,000	20,000																																	
Selling price per unit	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100																																	
Variable cost per unit	65	65	65	65	65																																	
Fixed costs	300,000	300,000	300,000	300,000	300,000																																	
Pre-tax cash flow	50,000	50,000	400,000	400,000	400,000																																	
	The machine will be depreciated over 5 years on a straight-line basis for tax purposes and Lunar is subject to a 40% effective income tax rate. Assuming Lunar will have significant taxable income from other lines of business, and using a 20% discount rate, the net present value of the project would be																																					
	A	\$(282,470)																																				
	B	\$(103,070)																																				

58 A company requires that capital budgeting proposals meet the acceptability criteria of both the payback method and the net present value (NPV) method. The company uses a cut-off payback period of four years. Which one of the following projects would produce conflicting results when applying the payback method and the NPV method?

Project Payback Net Present Value

A	5 years	\$800,000
B	3 years	100,000
C	5 years	(300,000)
D	3 years	50,000

A	Project A
B	Project B
C	Project C
D	Project D

59 Foster Manufacturing is analyzing a capital investment project that is forecasted to produce the following cash flows and net income.

Years After-Tax Cash Flows Net Income

0	\$(20,000)	\$ 0
1	6,000	2,000
2	6,000	2,000
3	8,000	2,000
4	8,000	2,000

If Foster's cost of capital is 12%, the net present value for this project is

A	\$(1,600)
B	\$924
C	\$6,074
D	\$6,998

60 The following methods are used to evaluate capital investment projects.

- Internal rate of return (IRR)
- Average rate of return (ARR)
- Payback period (PBP)
- Net present value (NPV)

Which one of the following correctly identifies the methods that utilize discounted cash-flow (DCF) techniques?

A	IRR – Yes; ARR – Yes; PBP – No; NPV- Yes.
B	IRR – Yes; ARR – No; PBP – No; NPV- No.
C	IRR – Yes; ARR – Yes; PBP – No; NPV- No.
D	IRR – Yes; ARR – No; PBP – No; NPV- Yes.

61 Profitability index of a project being more than one indicates:

A	Net present value of the project is less than zero.
B	Present value of future net cash inflows is more than initial investment.
C	Net present value of the project is equal to zero.
D	That the project will be profitable in more than one year.

62 XYZ Corp. is conducting an analysis of a potential capital investment. The project is expected to increase sales by 500,000 and reduce costs by \$250,000 annually. Depreciation expense is

\$150,000 per year. Colter's marginal tax rate is 50%. What is the annual operating cash flow for the project?

A	\$450,000.
B	\$750,000.
C	\$950,000.
D	\$825,000.

63 All of the following would increase the present value of the incremental tax savings associated with the depreciation of an asset except a decrease in the

A	Useful life of the asset.
B	Marginal income tax rate
C	Discount rate
D	salvage value of the asset.

64 A company purchases an item for \$43,000. The salvage value of the item is \$3,000. The cost of capital is 8%. Pertinent information related to this purchase is as follows:

Net cash flows Present value factor at 8%

Year 1	10,000	0.926
Year 2	15,000	0.857
Year 3	20,000	0.794
Year 4	27,000	0.735

What is the discounted payback period in years?

A	3.10
B	3.25
C	2.90
D	3.14

65 Diane Harper, Vice President of Finance for BGN Industries, is reviewing material prepared by her staff prior to the board of directors meeting at which she must recommend one of four mutually exclusive options for a new product line. The summary information below indicates the initial investment required, the present value of cash inflows (excluding the initial investment) at BGN's hurdle rate of 16%, and the internal rate of return (IRR) for each of the four options.

Option	Investment	Present Value of Cash Inflows at 16% IRR	IRR
X	\$3,950,000	\$3,800,000	15.5%
Y	3,000,000	3,750,000	19.0%
Z	2,000,000	2,825,000	17.5%
W	800,000	1,100,000	18.0%

If there are no capital rationing constraints, which option should Harper recommend?

A	Option X
B	Option Y
C	Option Z
D	Option W

66 Bell Inc. has a new project available which is expected to generate annual sales of 200,000 units for the next 8 years and then be discontinued. New equipment will be purchased for \$1,800,000 and cost \$200,000 to install. The equipment will be depreciated on a double-declining basis over its useful life. At the end of the eighth year, it will cost \$50,000 to remove the equipment, which can be sold for \$150,000. Additional working capital of \$400,000 will be required immediately and needed for the life of the product. Annual indirect costs will increase by \$300,000. Bell's effective tax rate is 40%.

In a capital budgeting analysis, what is the cash outflow at time 0 (initial investment) that Bell should use to compute the net present value?

A	\$2,400,000
B	\$2,200,000
C	\$1,750,000
D	\$1,800,000

67 Skyline Industries is analyzing a capital investment project. The new equipment is required by the project and will cost \$650,000 with \$25,000 installation and transportation costs. A five-year MACRS depreciation schedule (20%, 32%, 19.2%, 11.52%, 11.52%, 5.76%) with the half-year convention will be employed. Existing equipment, with a book value of \$200,000 and an estimated market value of \$100,000, will be sold immediately after installation of the new equipment. Annual incremental pre-tax cash inflows are estimated at \$175,000. Skyline's effective income tax rate is 40%. After-tax operating cash flow for the first year of the project would amount to

A	\$105,000
B	\$139,000
C	\$159,000
D	\$165,000

68 Which of the following is an advantage of net present value modelling?

A	It is measured in time, not dollars.
B	It uses accrual basis, not cash basis accounting for a project.
C	It uses the accounting rate of return.
D	It accounts for compounding of returns.

69 Which of the following rates is most commonly compared to the internal rate of return to evaluate whether to make an investment?

A	Short-term rate on U.S. Treasury bonds.
B	Weighted-average cost of capital.
C	Long-term rate on U.S. Treasury bonds
D	Prime rate of interest.

70 Harvey Co. is evaluating a capital investment proposal for a new machine. The investment proposal shows the following information

Initial cost	\$500,000
Life	10 years
Annual net cash inflows	200,000

Salvage value 100,000

If acquired, the machine will be depreciated using the straight-line method. The payback period for this investment is

A	3.25 years.
B	2.67 years.
C	2.5 years.
D	2 years.

PART – B

Compulsory Question (2 x 15 = 30 Marks)

71. a) Solomon Inc., a bearings manufacturer, has the capacity to produce 7,000 bearings per month. The company is planning to replace a portion of its labour-intensive production process with a highly automated process, which would increase Solomon's fixed manufacturing costs by \$30,000 per month and reduce its variable costs by \$5 per unit. Solomon's Income Statement for an average month is as follows

Particulars	Amount (\$)	Amount (\$)
Sales (5000 units at \$ 20 Per unit)		1,00,000
Variable Manufacturing Costs	50,000	
Variable selling Costs	15,000	65,000
Contribution		35,000
Fixed Manufacturing costs	16,000	
Fixed Selling Costs	4,000	20,000
Operating Income		15,000

After installation of automated process machine, what would be the monthly operating income of the Company? **(3 Marks)**

- b) ABC company produces educational software. Its current unit cost, based upon an anticipated volume of 150,000 units, is as follows:

Particulars	Amount (\$)
Selling Price	150
Variable Costs	60
Contribution Margin	90
Fixed Costs	60
Operating income	30

Sales for the coming year are estimated at 175,000 units, which is within the relevant range of ABC's cost structure. Cost management initiatives are expected to yield a 20% reduction in variable costs and a reduction of \$750,000 in fixed costs. What will be the cost structure for the upcoming year? **(3 Marks)**

- c) Alex Conrad, financial analyst for Rom Co, is presenting two mutually exclusive capital budgeting project proposals to the management team. The preliminary results for the net present value (NPV) and internal rate of return (IRR) analyses of the two projects being discussed are as follows.

Initial Investment	NPV	IRR	
\$822,800	\$0	12.00%	Project 1
\$300,000	\$49,469	17.65%	Project 2

Project 1 is expected to have a positive after-tax cash flow of \$200,000 per year for six years after

the initial investment, and Project 2 is expected to have a positive after-tax cash flow of \$85,000 for six years after the initial investment. During the meeting, Conrad was asked to explain several issues related to his analysis of the projects.

- i. Would an increase in the cost of equity affect the NPV and IRR of the projects, and thus the desirability of undertaking the projects? Explain your answer.
- ii. There is a possibility that the corporate income tax rate may be lowered in the near future. If this were to occur, how would this affect the NPV and IRR of the projects, and the desirability of investing in the projects
- iii. What is the payback period for each project? Show your calculations.

(9 Marks)

72) XYZ Company is considering a project costing \$100,000. The life span is 5 years, the project requires a working capital of \$5000 at the end of the second year.

From the Earning before tax given below

Year	Earning Before Tax (\$)
1	20,000
2	30,000
3	50,000
4	40,000
5	35,000

Assume tax rate is 30% and hurdle rate is 15%.

Considering yourself as a financial analyst, evaluate and suggest XYZ company on this project proposal using the below capital budgeting techniques

- a) Accounting Rate of Return
- b) Pay Back Period
- c) Net Present Value
- d) Profitability Index

Present Value Interest Factor Table (PVIF) @ 30%

Year 1	Year 2	Year 3	Year 4	Year 5
0.769	0.592	0.455	0.350	0.269

Present Value Interest Factor Table (PVIF) @ 15%

Year 1	Year 2	Year 3	Year 4	Year 5
0.870	0.756	0.658	0.572	0.497

(15 Marks)
