BRAINWARE UNIVERSITY
Term End Examination 2020 - 21
Programme – Bachelor of Commerce (Honours) in Banking & Financial Accounting
Course Name – Tax Planning and Wealth Management
Course Code - BCM506B
Semester / Year - Semester V

Time allotted : 85 Minutes Full Marks : 70

[The figure in the margin indicates full marks. Candidates are required to give their answers in their own words as far as practicable.]

Group-A

(Multiple Choice Type Question) 1 x 70=70

1. *(Answer any Seventy)*

(i) The accounting measure of a firm's equity value generated by applying Accounting Principles to asset and liability acquisition is called ________.

a) Book value b) Market value
c) Liquidation value d) None of these

(ii) The price-to-sales ratio is probably most useful for firms in which phase of the industry life cycle?

a) Start up phase b) Consolidation
c) Maturity d) All of these

(iii) The value of internet companies is based primarily on _____.

a) Current profits b) Tobin's q
c) Growth opportunities d) Replacement cost

(iv) New-economy companies generally have higher _______ than old-economy companies

a) Book value per share b) P/E Multiples
c) Profits d) None of these

(v) Which one of the following statements about market and book value is correct?

a) All firms sell at a market to book ratio above 1.

b) All firms sell at a market to book ratio greater than or equal to 1.

c) All firms sell at a market to book ratio below 1.

d) Most firms have a market to book ratio above 1, but not all.

(vi) Earning yields tend to _______ when Treasury yields fall.

a) Fall

b) Rise

c) Remain unchanged

d) Fluctuate wildly

(vii) Which one of the following is a common term for the market consensus value of the required return on a stock?

a) Dividend payout ratio

b) Intrinsic value

c) Market capitalization rate

d) None of these

(viii) If a stock is correctly priced then you know that ____________.

a) The dividend payout ratio is optimal

b) The stock's required return is equal to the growth rate in earnings and dividends

c) The sum of the stock's expected capital gain and dividend yield is equal to the stock's required rate of return

d) All of these

(ix) A firm cuts its dividend payout ratio. As a result you know that the firm's _______.

a) Return on assets will increase

b) Earnings retention ratio will increase

c) Earnings growth rate will fall

d) None of these

(x) __________ is the amount of money per common share that could be realized by breaking up the firm, selling its assets, repaying its debt, and distributing the remainder to shareholder.

a) Book value per share

b) Liquidation value per share

c) Market value per share

d) None of these

(xi) Suppose that in 2019 the expected dividends of the stocks in a broad market index equaled ?240 million when the discount rate was 8% and the expected growth rate of the dividends equaled 6%. Using the constant growth formula for valuation, if interest rates increase to 9% the value of the market will change by _____.

a) -0.1
b) -0.2
c) -0.33
d) None of these

(xii) You wish to earn a return of 10% on each of two stocks, A and B. Each of the stocks is expected to pay a dividend of ?4 in the upcoming year. The expected growth rate of dividends is 6% for stock A and 5% for stock B. Using the constant growth DDM, the intrinsic value of stock A _________.

a) Will be higher than the intrinsic value of stock B
b) Will be the same as the intrinsic value of stock B
c) Will be less than the intrinsic value of stock B
d) None of these

(xiii) Second mortgages pledged against bond's security are referred as

a) Loan mortgages
b) Medium mortgages
c) Junior mortgages
d) None of these

(xiv) Falling interest rate leads change to bondholder income which is

a) Reduction in income
b) Increment in income
c) Matured income
d) None of these

(xv) Treasury bonds are exposed to additional risks and include

a) Reinvestment risk
b) Interest rate risk
c) Both Reinvestment risk & Interest rate risk
d) None of these

(xvi) If bond's call provision is practiced in first year of issuance then an additional payment is classified as

a) Issuance provision
b) Bond provision
c) Call provision
d) None of these

(xvii) Bond which is offered below its face value is classified as
a) Present value bond
b) Original issue discount bond
c) Coupon issued bond
d) All of these

(xviii) Risk of fall in income due to fall in interest rates in future is classified as
a) Income risk
b) Investment risk
c) Reinvestment risk
d) All of these

(xix) Redemption option which protects investors against rise in interest rate is considered as
a) Redeemable at deferred
b) Redeemable at par
c) Redeemable at refund
d) All of these

(xx) Payment divided by par value is classified as
a) Divisible payment
b) Coupon payment
c) Par payment
d) None of these

(xxi) An annual interest payment divided by current price of bond is considered as
a) Current yield
b) Maturity yield
c) Earnings yield
d) All of these

(xxii) Call provision practiced by company which states that call price will be paid is classified as
a) Super refund provision
b) Super put redemption
c) Make-whole call provision
d) Super call provision

(xxiii) Coupon rate of convertible bond is

a) Higher | b) Lower
c) Variable | d) Stable

(xxiv) Outstanding bonds are also classified as

a) Standing bonds | b) Outdated bonds
c) Dated bonds | d) Seasoned bonds

(xxv) Unsecured bonds which are designated for only notes payable or all other debts are classified as

a) Designated bonds | b) Payable bonds
c) Ordinate bonds | d) Subordinated bonds

(xxvi) A market interest rate for specific type of bond is classified as bond's __________.

a) Required rate of return | b) Required option
c) Required rate of redemption | d) Required rate of earnings

(xxvii) High P/E ratios tend to indicate that a company _______ ceteris paribus.

a) Grow quickly | b) Grow at the same speed as the average company
c) Grow slowly | d) None of these

(xxviii) _______________ is equal to

a) Book value per share | b) Liquidation value per share
c) Market value per share | d) None of these

(xxix) ____ are analysis who use information concerning current and prospective profitability of a firm to assess the firm's fair market value.

a) Credit analysis | b) Fundamental analysis
c) System analysis | d) None of these

(xxx) The ____ is defined as the present value of all cash that proceeds to the investor in the stock.

a) Dividend payout ratio
b) Intrinsic value
c) Market capitalization rate
d) None of these

(xxxi) ______ is the amount of money per common share that could be realized by breaking up the firm, selling the assets repaying the debt and distributing the remainder to shareholders

a) Book value per share
b) Liquidation value
c) Tobin's Q
d) None of these

(xxxii) The _______ is the fraction of earnings reinvested in the firm.

a) Retention rate and plowback ratio
b) Plowback ratio
c) Retention ratio
d) None of these

(xxxiii) The Gordon Model

a) Is a generalization of the perpetuity
b) Is generalization of the perpetuity formula to cover the case of a growing perpetuity and is valid only when g is less than k
c) Is valid only g is equal to k
d) None of these

(xxxiv) You wish to earn a return of 11% on each of two stocks, C and D. Stock C is expected to pay a dividend of ?3 in the upcoming year while Stock D is expected to pay a dividend of ?4 in the upcoming year. The expected growth rate of dividends for both stocks is 7%. The intrinsic value of stock C _____.

a) Will be greater than the intrinsic value of stock D
b) Will be the same as the intrinsic value of stock D
c) Will be less than the intrinsic value of stock D
d) None of these

(xxxv) You wish to earn a return of 12% on each of two stocks, A and B. Each of the stocks is expected to pay a dividend of ?2 in the upcoming year. The expected growth rate of dividends is 9% for stock A and 10% for stock B. The intrinsic value of stock A ____.

a) Will be greater than the intrinsic value of stock B
b) Will be the same as the intrinsic value of stock B
c) Will be less than the intrinsic value of stock B
d) None of these

(xxxvi) You wish to earn a return of 10% on each of two stocks, C and D. Each of the stocks is expected to pay a dividend of ?2 in the upcoming year. The expected growth rate of dividends is 9% for stock C and 10% for stock D. The intrinsic value of stock C ____.

a) Will be greater than the intrinsic value of stock D
b) Will be less than the intrinsic value of stock D
c) will be greater than the intrinsic value of stock D or will be the same as the intrinsic value of stock D
d) None of these

(xxxvii) Each of the two stocks, A and B, are expected to pay a dividend of ?5 in the upcoming year. The expected growth rate of dividends is 10% for both stocks. You require a rate of return of 11% on stock A and a return of 20% on stock B. The intrinsic value of stock A ____.

a) Will be greater than the intrinsic value of stock B
b) Will be the same as the intrinsic value of stock B
c) Will be less than the intrinsic value of stock B
d) None of these

(xxxviii) Low Tech Company has an expected ROE of 10%. The dividend growth rate will be ________ if the firm follows a policy of paying 40% of earnings in the form of dividends.

a) 0.06
b) 0.048
c) 0.07199999999999999
d) None of these

(xxxix) High Speed Company has an expected ROE of 15%. The dividend growth rate will be ________ if the firm follows a policy of paying 50% of earnings in the form of dividends.

a) 0.03
b) 0.048
c) 0.075
d) None of these

(xl) Light Construction Machinery Company has an expected ROE of 11%. The dividend growth rate will be _______ if the firm follows a policy of paying 25% of earnings in the form of dividends.

a) 0.0825
b) 0.0425
c) 0.03
d) None of these

(xli) A preferred stock will pay a dividend of ?2.75 in the upcoming year, and every year thereafter, i.e., dividends are not expected to grow. You require a return of 10% on this stock. Use the constant growth DDM to calculate the intrinsic value of this preferred stock.

a) 0.275
b) 27.5
c) 31.82
d) None of these

(xlii) A preferred stock will pay a dividend of ?1.25 in the upcoming year, and every year thereafter, i.e., dividends are not expected to grow. You require a return of 12% on this stock. Use the constant growth DDM to calculate the intrinsic value of this preferred stock.

a) 10.88
b) 9.56
c) 6.33
d) 10.42

(xliii) A preferred stock will pay a dividend of ?3.50 in the upcoming year, and every year thereafter, i.e., dividends are not expected to grow. You require a return of 11% on this stock. Use the constant growth DDM to calculate the intrinsic value of this preferred stock.

a) 0.39
b) 5.56
c) 31.82
d) None of these

(xliv) A preferred stock will pay a dividend of ?7.50 in the upcoming year, and every year thereafter, i.e., dividends are not expected to grow. You require a return of 10% on this stock. Use the constant growth DDM to calculate the intrinsic value of this preferred stock.

a) 5.55
b) 5.56
c) 6.98
d) None of these

(xlv) A preferred stock will pay a dividend of ?6.00 in the upcoming year, and every year thereafter, i.e., dividends are not expected to grow. You require a return of 10% on this stock. Use the constant growth DDM to calculate the intrinsic value of this preferred stock.

a) 89.25
b) 60
c) 66.59
d) None of these

(xlvi) You are considering acquiring a common stock that you would like to hold for one year. You expect to receive both ?0.75 in dividends and ?16 from the sale of the stock at the end of the year. The maximum price you would pay for the stock today is _____ if you wanted to earn a 12% return.

a) 14.96
b) 6.98
c) 15.98
d) 16.68

(xlvii) Sure Tool Company is expected to pay a dividend of ?2 in the upcoming year. The risk-free rate of return is 4% and the expected return on the market portfolio is 14%. Analysts expect the price of Sure Tool Company shares to be ?22 a year from now. The beta of Sure Tool Company's stock is 1.25.

a) 0.025
b) 0.165
c) 0.056
d) None of these

(xlviii) Torque Corporation is expected to pay a dividend of ?1.00 in the upcoming year. Dividends are expected to grow at the rate of 6% per year. The risk-free rate of return is 5% and the expected return on the market portfolio is 13%. The stock of Torque Corporation has a beta of 1.2. What is the return you should require on Torque's stock?

a) 0.146
b) 0.1599
c) 0.1285
d) None of these

(xlix) Midwest Airline is expected to pay a dividend of ?7 in the coming year. Dividends are expected to grow at the rate of 15% per year. The risk-free rate of return is 6% and the expected return on the market portfolio is 14%. The stock of Midwest Airline has a beta of 3.00. The return you should require on the stock is _______.

a) 0.28
b) 0.42
c) 0.11
d) 0.3

(l) High Tech Chip Company is expected to have EPS in the coming year of ?2.50. The expected ROE is 12.5%. An appropriate required return on the stock is 11%. If the firm has a plowback ratio of 70%, the growth rate of dividends should be

a) 0.08749999999999999
b) 6.25?
c) 0.0911
d) None of these

(li) A company paid a dividend last year of ?1.75. The expected ROE for next year is 14.5%. An appropriate required return on the stock is 10%. If the firm has a plowback ratio of 75%, the dividend in the coming year should be _____________.

a) 6
b) 5
c) 1.94
d) 10

(lii) Suppose that the average P/E multiple in the oil industry is 20. Dominion Oil is expected to have an EPS of ?3.00 in the coming year. The intrinsic value of Dominion Oil stock should be ____.

a) 60
b) 72
c) 89
d) 56

(liii) Suppose that the average P/E multiple in the gas industry is 17. KMP is expected to have an EPS of ?5.50 in the coming year. The intrinsic value of

KMP stock should be ___

a) 93.5
b) 66.90000000000001
c) 90.09999999999999
d) 56.9

(liv) An analyst has determined that the intrinsic value of HPQ stock is ?20 per share using the capitalized earnings model. If the typical P/E ratio in the computer industry is 25, then it would be reasonable to assume the expected EPS of HPQ in the coming year is _____.

a) 0.8
b) 88.2
c) 60.9
d) None of these

(lv) Old Quartz Gold Mining Company is expected to pay a dividend of ?8 in the coming year. Dividends are expected to decline at the rate of 2% per year. The risk-free rate of return is 6% and the expected return on the market portfolio is 14%. The stock of Old Quartz Gold Mining Company has a beta of -0.25. The intrinsic value of the stock is _____.

a) 59.9
b) 133.33
c) 215
d) 456.5

(lvi) "The whole is worth more than the sum of its parts" refers to _____________.

a) Progression
b) Assemblage
c) Land residual
d) None of these

(lvii) A buyer who looked at seven very similar homes in a three year old subdivision made an offer on the home with the lowest list price. the buyer was utilizing the principal of ______________________.

a) Supply and demand
b) Substitution
c) Conformity
d) Change

(lviii) A competitive market analysis is prepared by a real estate agent to estimate the likely sales price of a property. This analysis is based on the:

a) Sales Comparison Method
b) Gross rent multiplier
c) Cost approach
d) Income approach

(lix) A new, expensive home in a mixed area of commercial property and older, less expensive homes could have a market value less than the cost of the new home because of __________________.

a) External obsolescence
b) The gross multiplier effect
c) Progression
d) Physical deterioration

(lx) A property being appraised had 2,400 square feet, but a comparable used by the appraiser had only 2,250 square feet. The appraiser should be _______________.

a) Disregard the comparable because of dissimilar size
b) Use the comparable but ignore the slight size difference
c) Adjust the sale price of the comparable upward because of size difference
d) Adjust the sale price of the comparable downward because of the size difference

(lxi) A property being appraised has a two car garage, while a comparable has a three car garage. In making adjustments, the appraiser would ______________.

a) Raise the value of the comparable
b) Lower the value of the home being appraise
c) Lower the value of the comparable
d) None of these

(lxii) A seller agreed to sell a home with no down payment and the below market rate seller financing. The favorable financing could be expected to affect:

a) Price but not the value of the property
b) Value of the property but not the price
c) Utility of the property
d) Depreciation method

(lxiii) A value regarded as being a subjective value would be ______________.

a) Market value
b) Assessed value

c) Use value
d) Book value

(lxiv) According to the principle of conformity, the highest value is maintained by having a residence

a) Adjoining a shopping area
b) Next to a church
c) Across from a school
d) In a center of a residential development

(lxv) After determining the value of the improvements of an existing structure, the appraiser deducted this amount from the market value to determine the value attributed to the land. This appraisal method is known as

a) Surplus productivity
b) The abstractive method
c) The development method
d) The land residual method

(lxvi) An appraiser in using the expression a "willing, informed buyer and a willing informed seller," is referring to

a) Progression
b) Supply and demand
c) The principle of highest and best use
d) Market value

(lxvii) The maximum amount of deduction under section 80C is -

a) 70000
b) 150000
c) 280000
d) 390000

(lxviii) Mr. X has taken a life insurance policy on life on his minor son suffering from severe disability on 01-04-2016. The capital sum assured is `1,00,000. He has paid insurance premium of `30,000 during the previous year. He is eligible for deduction under Section 80C amounting -

a) 30000
b) 15000
c) 10000
d) 20000

(lxix) Deduction in respect of subscription to notified bonds issued by the National Bank for Agriculture and Rural Development is allowed u/ s

a) 80C
b) 80G

c) 80GG

d) 80GGC

(lxx) Term Deposit for a fixed period of with a scheduled bank, which is in accordance with a scheme framed and notified by the Central Government shall qualify for deduction under section 80c.

a) One year or more

b) Two years or more

c) Three years or more

d) Five year or more