

## Sample Test: Fundamentals of Finance

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1. What is Net worth?
  - a. The money available to pay creditors of the company
  - b. The current value of a company's assets
  - c. The book value available to shareholders**
  
2. Net worth represents value available to shareholders
  - a. Over an accounting year
  - b. On the date of the balance sheet**
  - c. Over the life of a company
  
3. Qualified audit opinion is Issued when
  - a. The numbers in the balance sheet have not been verified
  - b. The facts as presented are misleading and incorrect
  - c. The accounting policies used do not result in a fair representation**
  
4. Which of the following is a preferable combination for a good quality borrower?
  - a. Lower leverage ratio and higher coverage ratio**
  - b. Higher leverage ratio and higher coverage ratios
  - c. Lower leverage ratio and Lower coverage ratio
  
5. Debt to total assets should ideally be
  - a. Less than one**
  - b. Equal to one
  - c. More than one
  
6. Contingent liabilities can impact the financial position by
  - a. Increasing the working capital
  - b. Reducing the profit margin
  - c. Increasing the debt burden**
  
7. Which of the following assets may be shown at current value in the balance sheet?
  - a. Finished stocks and debtors**
  - b. Land and buildings
  - c. Plant and Machinery

- 8.
8. An analyst will verify the quality of the numbers in an annual report by using
- Qualifications provided by the auditors**
  - Directors report and comments
  - Explanations provided by the company
9. The link between the profit and loss account and the balance sheet is
- Revenue from sales
  - Interest from borrowings
  - Profit retained after dividends**
10. Which of the following is NOT a typical type of income and employment documentation within a company, the nature of expenses and profits are reported?
- For each segment**
  - For each region
  - For each product
11. If the borrowings of a company are higher than its assets, it is likely to result in:
- Low earnings per share
  - High debt coverage
  - Negative net worth**
12. An increase in the net worth of a company increases:
- The debt-equity ratio
  - The net profit margin
  - Book value per share**
13. An auditor is likely to qualify accounts if
- The company is in steep losses
  - The accounting policies have changed**
  - The promoter holdings have dropped
14. An increase in operating profits may not result in an increase in net profits if:
- Interest costs have increased**
  - Depreciation is lower
  - Fixed costs are higher
15. The ability of the firm to borrow more is primarily evident in:
- Solvency ratios**
  - Liquidity ratios
  - Profitability ratios

16. A financial firm's price to book value is a relevant number primarily because:
- Financial stocks are widely held and well traded
  - The assets are mostly stated at realisable value**
  - Book value is not impacted by other income
17. A borrows money from Bank B. Which of the following is TRUE?
- It creates an asset for A and asset for B
  - It creates an asset for A and liability for B
  - It creates a liability for A and liability for B
  - It creates a liability for A and asset for B**
18. Which of the following is **NOT** correct?
- Assets = Liability + Contributed Capital + Ending Retained Earnings + Dividends**
  - Assets = Liability + Contributed Capital + Ending Retained Earnings
  - Assets = Liability + Contributed Capital + Beginning Retained Earnings + Revenue - Expenses - Dividends
19. Securities that, if included in a diluted EPS calculation, result in an EPS lower than the company's basic EPS are called as \_\_\_\_\_
- Dilutive Securities**
  - Antidilutive Securities
20. What is also known as "the statement of financial position"?
- Cash flow statement
  - Trial Balance
  - Profit and Loss Statement
  - Balance Sheet**
21. Amounts owed to a company by its customers for products and services already delivered is called as \_\_\_\_\_
- Trades payable
  - Trades receivable**
  - Trades pending
  - Advance trades
22. Which activities are classified to obtain or repay capital?
- Operating Activities
  - Investing Activities
  - Financing Activities**

23. Indirect Method begins with net income and adjusts to operating cash flows. True or False?
- True**
  - False
24. What step follows “**Determine the net cash flow from operating activities**” in preparation of cash flow statement?
- Determine the change in cash.
  - Determine net cash flows from investing and financing activities**
  - Disclose any significant noncash transactions separately at the bottom of the statement.
  - Include summary of net increase (decrease) in cash, cash at beginning, and cash at end.
25. The return on equity of a company is a function of:
- Asset utilisation, leverage and margin**
  - Debt cover, leverage and asset productivity
  - Margin, liquidity and asset growth
26. In computing net worth, which of these adjustments is usually made?
- Assets are valued at current realisable value
  - Depreciation and non-cash elements are added back
  - Contingent liabilities are excluded**
27. The valuation of a stock is a helpful measure because it links accounting numbers to:
- Market prices of equity**
  - Industry averages over time
  - Annual averages for the company
28. Long-term solvency is indicated by:
- Debt-Equity ratio**
  - Liquidity ratio
  - Interest coverage ratio
29. A falling profit margin can lead to
- Lower debt coverage
  - Higher input costs**
  - Lower revenue growth
30. When a company's fixed costs are high, an increase in sales leads to
- Proportionate increase in margin
  - More than proportionate increase in profits**
  - Less than proportionate increase in costs

31. The return on equity is positively impacted by leverage only if
- Sales are increasing
  - Net worth is decreasing
  - Profits are increasing**
32. Profit margins of which kind of business is usually likely to be higher than average?
- New**
  - Growing
  - Establishing
33. A high profitability ratio is interpreted best if
- It is achieved in a year of poor growth
  - It is in line with the average over a period of time
  - It is better than the industry averages**
34. Whether the firm is well positioned to meet its short term obligation is measured by?
- Solvency Ratios
  - Liquidity Ratios**
  - Coverage Ratios
35. Valuation ratios shows how firm's equity is performing related to
- Its past history
  - Its average over time
  - Its market prices**
36. In computing the forward looking PE ratio, which of the following is used?
- Average based on quarterly earnings
  - Median earnings of the peer group
  - Analyst estimates of future earnings**
37. A share that is traded with good volumes may represent possible manipulation if its bid-ask spread is
- Constant and narrowing
  - Volatile and widening**
  - Narrowing but volatile

38. When rising prices and rising Inventories, which of the following Inventory Valuation Method Will result in a understating of Net Income?
- Weighted Avg. Method
  - LIFO Method**
  - FIFO Method
  - Not Attempted
39. As a general rule, revenue is normally recognized when it is \_\_\_\_\_.
- Realizable and earned**
  - Measurable and received
  - Measurable and earned
  - Not Attempted
40. Cash Flow statement prepared using direct and indirect method fetches different results.
- FALSE**
  - TRUE
  - Not Attempted
41. Companies report accounts receivable at:
- Their liquidation value.
  - Their net realizable value**
  - The lower-of-cost-or-market value
  - Not Attempted
42. If the company's total asset turnover and gearing ratio increases, what would be the impact on return on equity if other things remain constant?
- The return on equity will increase**
  - The return on equity will decrease
  - The return on equity will not be impacted
  - None of the above
  - Not Attempted
43. Which of the following is not a contingent liability?
- Corporate guarantee received from a group company
  - Excise claims against the company
  - Bills discounted with banks

**d. All of the above are contingent liabilities**

e. Not Attempted

44. Which of the following groups are least likely to be trade payable of a company?
- a. Suppliers
  - b. Investors/Stakeholders
  - c. Customers/Clients**
  - d. Not Attempted
45. A loan covenant \_\_\_\_\_
- a. Must be complied with only at sanction and not later on
  - b. Must always be complied with during life of the loan**
  - c. Must be complied with only after sanction but may not be at sanction