

# DUMPS ARENA

Finance

CPA FIN

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**QUESTION NO: 1**

Johar Co has earnings per share of \$0.80 and a constant annual dividend payout ratio of 25%. Its equity shares have a beta of 1.2. The risk-free rate of return is 5% and the market rate of return is 8%.

What is the expected cost and predicted value of an equity share in Johar Co?

- A. Expected cost = 20.6%, Predicted value = \$3.88
- B. Expected cost = 8.6%, Predicted value = \$2.33
- C. Expected cost = 8.6%, Predicted value = \$9.30
- D. Expected cost = 3.6%, Predicted value = \$5.56

**ANSWER: B****QUESTION NO: 2**

A UK company has just provided a service to a US company for \$750,000. Settlement is due in two months' time and the UK company wants to hedge the risk of a fall in the value of the US dollar over the next two months. The following methods of hedging this risk have been suggested:

1. Buy sterling put options now
2. Buy sterling futures now
3. Buy sterling call options now
4. Sell sterling futures now

Which two of the above suggestions would provide a hedge against the exchange rate risk?

- A. 1 and 3
- B. 1 and 4
- C. 2 and 3
- D. 2 and 4

**ANSWER: C****QUESTION NO: 3**

Where there is capital rationing, the profitability index (PI) may be used to rank investment projects with a positive net present value. It has been claimed that using the PI is appropriate only when:

- 1) Capital rationing is for a single period.
- 2) The investment projects are indivisible.

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: B**

#### QUESTION NO: 4

Strategy is a course of action to achieve an objective. Corporate objectives are relevant for the organization as a whole, relating to key factors for business success. However, objectives can be in the form of financial objectives and non-financial objectives.

Which of the following is a financial objective of an organization?

- A. Earnings per share growth
- B. Welfare of employees
- C. Provision of certain level of services
- D. Welfare of society

**ANSWER: A**

#### QUESTION NO: 5

Etamin Co has equity shares in issue with a nominal value of \$10m and a total market value of \$18m. It also has irredeemable loan notes in issue with a nominal value of \$10m and a total market value of \$12m. Interest is payable on the loan notes at the coupon rate of 6% per year and the tax rate is 20%. The weighted average cost of capital of Etamin Co is 10%.

What is the company's cost of equity?

- A. 12.7%
- B. 13.5%
- C. 14.0%
- D. 16.0%

**ANSWER: C****QUESTION NO: 6**

Seagull plc has 20 million \$0.50 ordinary shares and irredeemable loan capital with a nominal value of \$40 million in issue. The ordinary shares have a current market value of \$2.40 per share and the loan capital is quoted at \$80 per \$100 nominal value. The cost of ordinary shares is estimated at 11% and the cost of loan capital is calculated to be 8%. The rate of corporation tax is 25%.

What is the weighted average cost of capital for Seagull plc?

- A. 7.0%
- B. 9.0%
- C. 9.5%
- D. 9.8%

**ANSWER: B****QUESTION NO: 7**

Consider the following statements concerning the efficient market hypothesis:

1. When markets demonstrate semi-strong form efficiency, share prices will react to publicly-available information about the future prospects of a business.
2. When markets demonstrate weak form efficiency, there is no connection between past share price movements and future 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: A****QUESTION NO: 8**

Consider the following statements concerning financial options:

1. The time value of an option is the value assigned to the possibility that the price of the underlying item will move in favor of the option writer.

2. The time value of an option less its intrinsic value is equal to the option premium.

Which ONE 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: D**

### QUESTION NO: 9

The following exchange rates of UK sterling (£) against the Australian dollar (A\$) have been quoted:

Spot £1 = A\$1.7574

Six months' forward, £1 = A\$1.7245

The interest rate in Australia is 5% per year for a six-month deposit or borrowing.

What is the annual interest rate for a six-month deposit or borrowing in the UK?

- A. 4.45%
- B. 7.00%
- C. 8.90%
- D. 9.95%

**ANSWER: C**

### QUESTION NO: 10

It has been claimed that the weighted average cost of capital (WACC) should only be used to evaluate investment decisions, involving discounted cash flow calculations, where:

1. The proposed project does not alter the business risk profile of the business.
2. The WACC reflects the long-term capital structure of the business.

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: A**