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37	A	B	C	D	E
38	A	B	C	D	E
39	A	B	C	D	E

PRACTICE QUESTIONS

GISI – Ghana Investment and Securities Institute Limited

CF

Corporate Finance

EDITION

Demo

QUESTIONS

9

FORMAT

Limited Edition PDF

Before you begin

What this is

9 practice questions for GISI – Ghana Investment and Securities Institute Limited **CF**, each with its answer key and an explanation. Answer a question before you read its key — the explanation is worth more once you have committed.

If something looks wrong

Send us three things and we will check it:

- the exam code, **CF**
- the question number
- the email address on your order

Write to **support@mometrix.net**. We reply within one business day.

QUESTION 1

SINGLE CHOICE

The primary goal of financial management in a corporate setting is best described as:

- ☐ A Maximisation of total sales revenue
- ☐ B Maximisation of employee welfare benefits
- ☒ C Maximisation of shareholder wealth
- ☐ D Maximisation of accounting profit

ANSWER C

WHY The widely accepted primary goal of corporate finance is the maximisation of shareholders' wealth, typically reflected in the market value of the firm's shares. Sales revenue, employee welfare and accounting profit are secondary considerations and do not capture the time value of money and risk in the way shareholder wealth does.

QUESTION 2

SINGLE CHOICE

An investor deposits GHS 10,000 in an account that pays 8% interest compounded annually. What is the future value of the deposit at the end of 3 years?

- ☐ A GHS 12,400.00
- ☒ B GHS 12,597.12
- ☐ C GHS 12,800.00
- ☐ D GHS 13,000.00

ANSWER B

WHY Future value = $PV \times (1 + r)^n = 10,000 \times (1.08)^3 = 10,000 \times 1.259712 = \text{GHS } 12,597.12$. Option A uses simple interest, Option C uses straight multiplication by 1.08 three times added rather than compounded, and Option D is incorrect.

QUESTION 3

SINGLE CHOICE

Which capital budgeting technique measures a project's profitability by dividing the present value of future cash flows by the initial investment?

- ☐ A Net Present Value (NPV)
- ☐ B Internal Rate of Return (IRR)
- ☒ C Profitability Index (PI)
- ☐ D Payback Period

ANSWER C

WHY The Profitability Index (PI) is calculated as the present value of a project's future cash flows divided by the initial investment. A PI greater than 1 indicates the project creates value. NPV measures absolute value created, IRR is the discount rate that makes NPV zero, and the payback period measures the time required to recover the initial investment.

QUESTION 4

SINGLE CHOICE

According to the Capital Asset Pricing Model (CAPM), the expected return on a security is a function of:

- ☐ A The risk-free rate and the market risk premium only
- ☒ B The risk-free rate, beta and the market risk premium
- ☐ C Beta and the standard deviation of the security
- ☐ D The firm's dividend yield and growth rate

ANSWER B

WHY CAPM states that the expected return on a security equals the risk-free rate plus beta multiplied by the market risk premium: $E(R_i) = R_f + \beta_i (R_m - R_f)$. Standard deviation is a measure of total risk and is not part of CAPM; dividend yield and growth relate to the Gordon growth model.

QUESTION 5 SINGLE CHOICE

The Weighted Average Cost of Capital (WACC) represents the:

- ☐ A Average return required by shareholders only
- ☐ B After-tax cost of debt only
- ☒ C Weighted average of the costs of all sources of long-term financing
- ☐ D Sum of all dividend payments made by the firm

ANSWER C

WHY WACC is the weighted average of the after-tax cost of debt, cost of equity and cost of any other long-term financing, using each source's proportion of total capital as the weight. It is commonly used as the discount rate for evaluating corporate projects.

QUESTION 6 SINGLE CHOICE

The Modigliani–Miller (MM) proposition, without taxes and bankruptcy costs, suggests that the value of a firm is:

- ☐ A Maximised at an optimal debt-equity ratio
- ☐ B Inversely related to the level of debt in the capital structure
- ☒ C Independent of its capital structure
- ☐ D Maximised when the firm is all-equity financed

ANSWER C

WHY Under MM's basic propositions, in the absence of taxes, bankruptcy costs and other market imperfections, the value of the firm is unaffected by its capital structure. The other options describe conclusions drawn from the trade-off or pecking order theories, not the basic MM proposition.

QUESTION 7

SINGLE CHOICE

An investor buys a share for GHS 50. During the year, the share pays a dividend of GHS 3 and its price rises to GHS 56. What is the total return to the investor?

- ☐ A 6.00%
- ☐ B 6.67%
- ☐ C 12.00%
- ☒ D 18.00%

ANSWER D

WHY Total return = (Dividend + Capital gain) / Initial price = $(3 + 6) / 50 = 9/50 = 18\%$. The dividend yield is 6% and the capital gains yield is 12%, which sum to 18% total return.

QUESTION 8

SINGLE CHOICE

The operating cycle of a firm is the period between the:

- ☒ A Acquisition of raw materials and the collection of cash from sales
- ☐ B Receipt of cash from customers and the payment of dividends
- ☐ C Issuance of shares and the payment of corporate tax
- ☐ D Purchase of fixed assets and their disposal

ANSWER A

WHY The operating cycle measures the time from the acquisition of inventory (raw materials) through production and sales to the eventual collection of cash from customers. It is a key working capital metric along with the cash conversion cycle.

QUESTION 9

MULTIPLE CHOICE

Which of the following are long-term sources of finance typically available to a corporate firm? (Choose two.)

- ☐ A Trade credit from suppliers
- ☒ B Issue of corporate bonds
- ☐ C Bank overdraft
- ☒ D Issue of ordinary shares

ANSWER B - D

WHY Corporate bonds and ordinary shares are long-term sources of finance because they generally have maturities (bonds) or perpetuity status (shares) exceeding one year. Trade credit and bank overdrafts are short-term sources of finance.