

35 Lecture - MGT201

Important Mcqs

1. **What is the main difference between the net income approach and tax shield approach to WACC?**

- A) The net income approach includes tax benefits of debt, while tax shield approach does not.
- B) The net income approach considers the cost of equity, while tax shield approach does not.
- C) The net income approach is more complex than the tax shield approach.
- D) The tax shield approach underestimates the WACC, while net income approach overestimates it.

Answer: A

2. **Which approach considers the tax savings from interest payments in the calculation of WACC?**

- A) Net income approach
- B) Tax shield approach
- C) Both approaches
- D) Neither approach

Answer: B

3. **In the tax shield approach, what is the value of the tax shield?**

- A) Interest expense x Tax rate
- B) Debt x Tax rate
- C) Equity x Tax rate
- D) Interest expense + Tax rate

Answer: A

4. **Which of the following is a drawback of using the net income approach to calculate WACC?**

- A) It does not account for the tax savings from interest payments.
- B) It overestimates the WACC.
- C) It is more complex than the tax shield approach.
- D) It requires more data inputs than the tax shield approach.

Answer: A

5. **Which approach is more commonly used in practice?**

- A) Net income approach
- B) Tax shield approach
- C) Both approaches equally
- D) Neither approach

Answer: B

6. What is the formula for calculating the after-tax cost of debt in the net income approach?

- A) Cost of debt x (1 - Tax rate)
- B) Cost of debt + Tax rate
- C) Cost of debt x Tax rate
- D) Cost of debt / (1 - Tax rate)

Answer: A

7. Which approach may result in a lower WACC?

- A) Net income approach
- B) Tax shield approach
- C) Both approaches
- D) Neither approach

Answer: B

8. What is the main advantage of using the net income approach to calculate WACC?

- A) It is simpler than the tax shield approach.
- B) It provides a more accurate estimate of WACC.
- C) It accounts for the tax savings from interest payments.
- D) It is more commonly used in practice.

Answer: A

9. What is the formula for calculating WACC using the tax shield approach?

- A) (Cost of equity x Equity weight) + (Cost of debt x Debt weight)
- B) (Cost of equity / Equity weight) + (Cost of debt / Debt weight)
- C) (Cost of equity x Equity weight) - (Cost of debt x Tax rate x Debt weight)
- D) (Cost of equity / Equity weight) - (Cost of debt x Tax rate x Debt weight)

Answer: C

10. Which approach results in a higher cost of equity in the calculation of WACC?

- A) Net income approach
- B) Tax shield approach
- C) Both approaches
- D) Neither approach

Answer: A