1. What is the primary purpose of valuation in finance?

a) To determine the historical cost of assets
b) To assess the current market value of assets
c) To calculate the future value of investments
d) To determine the depreciation rate of assets

Answer: b) To assess the current market value of assets

Explanation: Valuation in finance primarily aims to determine the current market value of assets, which helps in making informed decisions regarding investments, sales, or financial reporting.

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2. Which factor is NOT typically considered in determining depreciation of assets?

a) Market demand
b) Asset's useful life
c) Salvage value
d) Inflation rate

Answer: a) Market demand

Explanation: Depreciation of assets is typically based on factors such as the asset's useful life, salvage value (or scrap value), and the method of depreciation used, but it is not directly influenced by market demand.

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3. What is the purpose of a sinking fund in asset valuation?

a) To allocate funds for future investments
b) To retire debt or replace assets
c) To calculate depreciation expenses
d) To estimate scrap value

Answer: b) To retire debt or replace assets

Explanation: A sinking fund is set up to accumulate funds over time to retire debt or replace assets when they reach the end of their useful life, ensuring financial stability and continuity for an organization.

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4. The scrap value of an asset refers to:

a) The amount spent on maintaining the asset
b) The initial purchase price of the asset
c) The value of the asset at the end of its useful life
d) The net income generated by the asset

Answer: c) The value of the asset at the end of its useful life

Explanation: Scrap value, also known as salvage value, is the estimated residual value of an asset at the end of its useful life. It represents the amount for which the asset can be sold or disposed of after depreciation.

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5. Year’s purchase is a term commonly used in valuation to represent:

a) The number of years it takes to depreciate an asset
b) The annual return on investment
c) The gross income generated by an asset in a year
d) The multiplier used to calculate the present value of future income

Answer: d) The multiplier used to calculate the present value of future income

Explanation: Year’s purchase is a factor used to calculate the present value of future income from an asset. It represents the number of years’ worth of income that is capitalized to determine the asset’s current value.

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6. Gross income from an asset refers to:

a) Total income before deducting expenses
b) Net income after deducting expenses
c) Income generated from investments

d) Income from the sale of assets

Answer: a) Total income before deducting expenses

Explanation: Gross income represents the total income generated by an asset or business before deducting expenses such as operating costs, taxes, and depreciation.

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7. Net income from an asset is calculated by:

a) Subtracting gross income from depreciation
b) Subtracting expenses from gross income
c) Adding expenses to gross income
d) Adding depreciation to gross income

Answer: b) Subtracting expenses from gross income

Explanation: Net income is calculated by subtracting all expenses, including operating costs, taxes, and depreciation, from the gross income generated by an asset or business.

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8. Dual rate interest involves:

a) Charging different interest rates based on the asset’s depreciation

b) Applying two different methods of interest calculation
c) Calculating interest at different rates for different periods
d) Offering two rates of interest for the same investment

Answer: c) Calculating interest at different rates for different periods

Explanation: Dual rate interest involves the application of different interest rates for different periods or under different conditions, often used in financial instruments like bonds or loans with variable interest rates.

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9. Which method is NOT commonly used in asset valuation?

a) Market approach
b) Income approach
c) Cost approach
d) Depreciation approach

Answer: d) Depreciation approach

Explanation: While depreciation is a factor considered in asset valuation, it is not a standalone method of valuation. Common methods include the market approach, income approach, and cost approach.

10. Rent fixation of buildings involves:

a) Calculating the rental income from a building
b) Determining the appropriate rent for a building
c) Assessing the depreciation of a building
d) Estimating the resale value of a building

Answer: b) Determining the appropriate rent for a building

Explanation: Rent fixation of buildings refers to the process of determining the appropriate rent to be charged for leasing a building, taking into account factors such as market demand, location, amenities, and property condition.