

1. An equity investor holds shares in a company that pays no dividends and undergoes no restructuring. What is the sole source of the investor's return?

- a. Price appreciation or depreciation of the shares
- b. Periodic coupon payments from the company
- c. Contractual repayment of the original capital invested

2. Which of the following most accurately describes a dividend?

- a. A contractual periodic payment that must be made when net income is positive
- b. A fixed cash payment guaranteed to shareholders at the end of each financial year
- c. A discretionary net income distribution to shareholders, which a firm may pay regularly, occasionally, or not at all

3. A company is in the start-up phase of its life cycle. What type of return do equity investors most typically seek?

- a. Regular dividend income because start-ups need to attract income-seeking investors
- b. Long-term capital appreciation rather than current income
- c. Both capital appreciation and regular dividends in equal measure

4. What is the key difference between the dividend policies of mature companies and start-up or growth companies?

- a. Mature companies with stable cash flows are more likely to regularly distribute earnings; start-ups and growth companies typically retain all earnings for reinvestment
- b. Mature companies pay no dividends because their reinvestment needs are highest
- c. Start-up companies must pay dividends to attract initial equity investors; mature companies are not required to

5. What document is distributed to prospective investors coinciding with a share issuance, outlining key features of the equity security and use of proceeds?

- a. The annual report, which summarises performance after the shares have been issued
- b. The equity prospectus (or offering memorandum for private placements)
- c. The articles of incorporation, which define the company's governance structure at formation

6. Which of the following correctly describes the claim of common shareholders upon company liquidation?

- a. Priority claim — they are repaid before debtholders as the primary risk-takers
- b. Equal claim alongside preference shareholders — both equity classes share net assets proportionally
- c. Residual claim — they receive any remaining assets after all debts and preferred shareholders have been paid

7. A company has missed its preference dividend for three years. The preference shares are cumulative. What must happen before common shareholders can receive any dividend?

- a. All three years of unpaid preference dividends must be paid in full
- b. Only the most recent year's missed dividend must be settled
- c. No payment is required — cumulative arrears are extinguished after two years

8. What right do putable preference shareholders hold that standard preference shareholders do not?

- a. The right to convert their shares into a specified number of common shares
- b. The right to sell their shares back to the issuer at a predetermined price
- c. The right to receive an additional dividend when company profits exceed a threshold

9. Which contingency provision gives the issuer — not the investor — an option over the preference shares?

- a. Callable preference shares — the issuer has the right, but not the obligation, to repurchase at a predetermined price
- b. Putable preference shares — the investor may force the issuer to redeem at a set price
- c. Participating preference shares — the issuer decides whether to pay the additional dividend

10. An investor seeks equity securities with the possibility of receiving additional income if the company's profits exceed a specified level, alongside a fixed minimum dividend. Which type of preference share meets both objectives?

- a. Participating preference shares
- b. Cumulative preference shares
- c. Putable preference shares

11. Comparing common shares, preference shares, and debt, which combination of features is shared by both common shares and preference shares but NOT by debt?

- a. Voting rights and residual economic claim
- b. No contractual obligation to make periodic distributions and indefinite life (no fixed maturity)
- c. Senior economic rights and finite maturity

12. A preference shareholder holds shares in a company that is liquidated. After all debt is repaid, the remaining assets are worth exactly the liquidation preference payout amount. What do common shareholders receive?

- a. Nothing — the liquidation preference absorbs the remaining assets in full before any distribution to common shareholders
- b. A pro-rata share of assets alongside preference shareholders
- c. The full remaining amount, because preference shareholders are already senior to debtholders

13. An investor holds convertible preference shares in an early-stage company approaching its IPO. What two benefits did the company gain by issuing convertible preference shares?

- a. Higher voting rights for founders and guaranteed conversion at a premium to the IPO price
- b. A lower dividend cost than standard preferred shares, and the ability to retain ownership control prior to the IPO
- c. Access to debt financing and exemption from preparing an equity prospectus