CA INTERMEDIATE

PAPER-6 : FINANCIAL MANAGEMENT

MULTIPLE CHOICE QUESTIONS

PAPER-6A : FINANCIAL MANAGEMENT

CONTENTS

CHAPTER-1
BASICS OF FINANCIAL MANAGEMENT

1. "Shareholder wealth" in a firm is represented by__________
   (a) The number of people employed in the firm.
   (b) The book value of the firm's assets less the book value of its liabilities.
   (c) The amount of salary paid to its employees.
   (d) The market price per share of the firm's common stock.
2. To increase a given present value, the discount rate should be adjusted -
   (a) Upward (c) Keep as it is
   (b) Downward (d) None of the above
3. Long run objective of financial management is to_________
   (a) Maximize earnings per share.
   (b) Maximize the value of the firm's common stock.
   (c) Maximize return on investment.
   (d) Maximize market share.
4. Financial Management is concerned with______
   (a) Investment Decisions (c) Dividend Decisions
   (b) Finance Decisions (d) All of the above
5. Procurement of funds inter alia includes________
   (a) Identification of sources of finance
   (b) Determination of finance mix
   (c) Raising of funds
   (d) Division of profits between dividends and retention of profits of internal funds generation
   (a) (a)&(b) (c) (b)&(c)
   (b) (a), (c)&(d) (d) (c), (a), (d)&(b)
6. The market price of a share of common stock is determined by:
   (a) The board of directors of the firm.
   (b) The stock exchange on which the stock is listed.
   (c) The president of the company.
   (d) Individuals buying and selling the stock.
7. Which of the following is/are the basic aspects of financial management?
   (1) Procurement of funds.
   (2) Appointment of capable financial personnel.
   (3) Effective use of funds to achieve business objectives.
   (4) Increase the national resources.
   (a) (1)&(3) (b) (2)&(4) (c) (1)&(4) (d) (2)&(3)

8. The focal point of financial management in a firm is_______
   (a) The number and types of products or services provided by the firm.
   (b) The minimization of the amount of taxes paid by the firm.
   (c) The creation of value for shareholders.
   (d) The profits earned by the firm.
9. A business organization can obtain funds from ______
   (a) Issue of preference or equity share capital
   (b) Issue of debentures
   (c) Loan from banks and financial institution
   (d) All of the above
10. The decision function of financial management can be broken down into decisions.
   (a) Financing and investment
   (b) Investment, financing & asset management
   (c) Financing and dividend
   (d) Capital budgeting, cash management & credit management
11. The funds raised by the issue of_______are the best from the risk point of view for the company.
   (a) equity shares
   (b) debentures
   (c) both(A)&(B)
   (d) none of the above
12. Which of the following is not a function of a finance manager?
   (a) Investor relations
   (b) Credit & collections
   (c) Investments
   (d) Appointment of financial personnel
13. Money market mutual funds
   (a) Are also known as finance companies
   (b) Enable individuals and small businesses to invest indirectly in money-market instruments.
   (c) Are available only to high net-worth individuals.
   (d) Are involved in acquiring and placing mortgages
14. The purpose of financial markets is to:
   (a) Increase the price of common stocks
   (b) Lower the yield on bonds
   (c) Allocate savings efficiently
   (d) Control inflation
15. Investment decisions are concerned with -
   (a) Efficient allocation of funds to specific assets
   (b) Determining the proper amount of funds to be employed in the firm.
   (c) Determining the composition of liabilities
   (d) Short-run projects

16. ________ensures that the firm utilizes its available resources most efficiently under conditions of competitive markets.

(a) Wealth Maximization (c) Value Maximization

(b) Profit Maximization (d) Relation Maximization

17. For which of the following reason(s) profit maximization concept is criticized -

1. It is vague conceptually.
2. It ignores the timing of returns.
3. It ignores the risk factor
4. Its emphasis is generally on short-run projects. Select the correct answer from the options given below.

(a) 1 (b) 1&2 (c) 1,2&3 (d) 1,2,3 814

18. ________consistent with the object of maximizing the owner's economic welfare.

(a) Profit Maximization (c) Relation Maximization

(b) Wealth Maximization (d) All of the above

19. Financial Management is concerned with -

(a) Profit Maximization (b) Both (A) & (C)

(c) Wealth Maximization

(d) Both (A) & (C) plus Relation Maximization

20. Profit maximization -

(a) Cannot be the sole objective of a company

(b) Is at best a limited objective.

(c) Has to be attempted with a realization of risks involved

(d) All of the above

21. Under inflationary conditions, the value of money expressed in terms of its purchasing power over goods and services

(a) Incline (c) Increases

(b) Declines (d) Remains constant

22. _______is a condition where a company cannot meet or has difficulty paying off, its financial obligations to its creditors, typically due to high fixed costs, illiquid assets, or revenues sensitive to economic downturns.

(a) Financial risk (c) Financial certainty

(b) Financial uncertainty (d) Financial distress

23. _______means the organization can no longer meet its financial obligations with its lender or lenders as debts become due.

(a) Financial certainty (c) Financial risk

(b) Financial insolvency (d) Identified risk

24. A permanent____may lead an organization to the chaotic state_______

(a) Financial insolvency; financial certainty

(b) Financial distress; Identified risk

(c) Identified risk; financial insolvency

(d) Financial distress; financial insolvency

25. Using_______in the capital structure of a company is called financial gearing

(a) Borrowed funds or fixed cost funds (b) Owners funds or fixed cost funds

(c) Owners funds

(d) Reserve or balance of profit & loss account

26. Higher the level of financial gearing_

(a) Greater will be the risk. (c) Risk will be constant.

(b) Lower will be the risk. (d) None of the above

27. Financial management is broadly concerned with_______

(a) Raising of funds

(b) Creating value to the assets of the business enterprise

(c) Efficient allocation of funds

(d) All of the above

28. Financial Management can be judged by the study of the nature of__________

(a) Corporate, social & benefit decisions.

(b) Accounting, financing & dividend decisions.

(c) Personnel, human cost & economic decisions

(d) Investment, financing & dividend decisions.

29. Which of the following is/are a major aspect of the investment decision-making process?

(a) Capital budgeting (b) Formulation of Functional Strategy

(c) Strategic implementation (d) All of the above

30. Investment decisions encompass__________

(a) Cost of capital (b) Capital budgeting

(c) Management of liquidity and current assets

(d) All of the above

31. Optimal investment decisions need to be made taking into consideration such factors as_

(a) Estimation of capital outlays & future earnings of the proposed project focusing on the task of value engineering and market forecasting;

(b) Availability of capital and considerations of cost of capital focusing attention on financial analysis

(c) A set of standards by which to select a project for implementation and maximizing returns therefrom focusing attention on logic and arithmetic.

(d) All of the above

32. If the 'Profit Maximization' concept is applied then which of the following Product will be selected?

YEAR	A	B	C	D
1	14,000	6,000	35,000	22,000
2	14,000	8,000	10,000	5,000
3	14,000	10,000	8,000	18,000
4	14,000	18,000	4,000	6,000
5	14,000	34,000	2,000	10,000

Note: Above table shows projected earnings of the various products for the next 5 years.

(a) Product A (b) Product B (c) Product C (d) Product D

ANSWERS

1	2	3	4	5	6	7	8	9	10	11	12
(d)	(b)	(b)	(d)	(d)	(d)	(a)	(c)	(d)	(b)	(a)	(d)
13	14	15	16	17	18	19	20	21	22	23	24
(b)	(c)	(a)	(b)	(d)	(b)	(b)	(d)	(b)	(d)	(b)	(d)
25	26	27	28	29	30	31	32				
(a)	(a)	(d)	(d)	(a)	(d)	(d)	(b)				

CHAPTER-2

FINANCIAL RATIO ANALYSIS

1. In an organization, profit after interest, tax, and dividend on preference shares is ₹ 4,00,000. The number of equity shares is 40,000 and the dividend payout ratio is 40%. The dividend per share is

   (a) ₹ 4 (b) ₹ 25 (c) ₹ 10 (d) ₹ 6

2. From the following information find the value of dosing stock

   Stock velocity: 6 months Gross profit ratio: 25% Gross profit for the year ended 31st March 2014: K 1,00,000

   Closing stock for the period - ? 20,000 more than it was at the beginning of the year.

   (a) ₹ 1,50,000 (b) ₹ 1,40,000 (c) ₹ 1,60,000 (d) ₹ 70,000

3. The profit before taxes of a company is ₹ 2,00,000, preference dividend ₹ 25,000, and taxes paid K 15,000. The number of equity shares is 1,00,000. The earnings per share (EPS) is -

   (a) ₹ 1.5 (b) ₹ 1.6 (c) ₹ 2 (d) ₹ 1.75

4. The current ratio of Brave Ltd. is 2:1, while the quick ratio is 1.8:1. If the current liabilities are ₹ 40,000, the value of the stock will be__________

   (a) ₹ 12,000 (b) ₹ 6,500 (c) ₹ 8,000 (d) ₹ 10,000

5. In an organization, working capital is ₹ 1,00,000 and current ratio 3:1. The value of current assets is -

   (a) ₹ 1,50,000 (b) ₹ 1,00,000 (c) ₹ 50,000 (d) ₹ 15,000

6. Working capital ratio is also known as:

   (a) Quick ratio (c) Current ratio

   (b) Debt-Equity ratio (d) Liquid ratio

7. Credit sales of Jump Ltd. for the year is ₹ 12,00,000 and debtors at the end of year ₹ 2,40,000. Assuming 360 days in a year, the average collection period will be

   (a) 60 Days (b) 72 Days (c) 180 Days (d) 80 Days

8. Opening stock ₹ 29,000 Closing stock ₹ 31,000 Purchases ₹ 2,42,000 Stock turnover ratio will be -

   (a) 12 Times (b) 15 Times (c) 9 Times (d) 8 Times

9. Which of the following is a method used in analyzing financial statements -

   (a) Variance analysis (c) Break-even analysis

   (b) Trend analysis (d) Budget analysis

10. In an organization, the current ratio is 2.5, the liquid ratio 1.5, prepaid expenses nil, and stock ₹ 4,000. The amount of current liabilities is -

    (a) ₹ 20,000 (b) ₹ 40,000 (c) ₹ 80,000 (d) ₹ 4,000

11. ________ are necessary for the study of trends and direction of movements in the financial position and operating results of a concern.

(a) Trend ratios		(c) Common size statements	
(b) Cash flow statements		(d) Comparative statements	

12. Current ratio is 2.5 and the liquid ratio is 1.5. Working capital is ₹ 75,000. The value of the stock held will be

(a) ₹ 60,000	(b) ₹ 1,00,000	(c) ₹ 50,000	(d) None

13. Determine a firm's total assets turnover, if its net profits margin is 8%, total assets are ₹ 8,00,000 and the return on investment is 14%

(a) 2.05	(b) 4.00	(c) 1.75	(d) 2.00

14. Net income of a company after payment of preference dividend was ₹ 63 lakh. The number of equity shares was 1,40,000. The P/E ratio of the company was 8.50 times. Earnings per share and market value per share would be

(a) ₹ 45 & ₹ 382.50 respectively	(c) ₹ 33.16 & ₹ 281.86 respectively
(b) ₹ 45 & ₹ 308.20 respectively	(d) ₹ 45 & ₹ 5.29 respectively

15. Which of the following pairs is correctly matched
    (a) Administrative expenses + Selling and distribution expenses = Operating expenses
    (b) Gross profit x Net sales x 100 = Net profit ratio
    (c) Both (A) and (B) above
    (d) None of the above

16. Return on investment depends on two ratios
    (a) Net profit ratio and capital turnover ratio
    (b) Gross profit ratio and net profit ratio
    (c) Capital employed ratio and assets turnover ratio
    (d) Earnings per share and net profit ratio

17. Which of the following pairs is not correctly matched
    (a) Dividend per equity share / Earnings per share = Payout ratio
    (b) [Operating profit/Capital em-ployed] ₹ 100 = Return on capital employed
    (c) [(Cost of goods sold + operating expenses)/net sales] x 100 = Operating profit ratio
    (d) None of the above

18. Which of the following pairs is correctly matched
    (a) Profitability ratios - Expenses ratios
    (b) Activity ratios - Total assets turnover ratio
    (c) Both (A) and (B) above
    (d) None of the above

19. Return on investment is also known as

(a) Dupont chart	(c) P/V ratio
(b) Activity ratio	(d) Market test ratio

20. Equity share capital: ₹ 30 lakh (30,000 shares of ₹ 100 each); 9% preference shares: ₹ 10 lakh; profit before tax: ₹ 24.46 lakh and tax rate 30%. Earnings per share will be

(a) ₹ 54.07 (b) ₹ 81.53 (c) ₹ 78.53 (d) ₹ 57.07

21. In financial analysis, 'time-series analysis' refers to
   (a) Making a time series of various ratios to assess a firm's profitability
   (b) A graphical comparison of a firm's sources of finance
   (c) The comparison of financial ratios over a period of time to assess the direction of change and the financial performance of a firm
   (d) A comparison of time values for various ratios of a firm

22. If average collection period is 15 days and average account receivables is ₹ 45,000, the total amount of credit sales will be (assume 360 days in a year)
   (a) ₹ 10,80,000 (b) ₹ 16,20,000 (c) ₹ 6,75,000 (d) ₹ 1,87,500

23. Current liabilities of a firm are ₹ 1,50,000. Its current ratio is 3:1 and liquid ratio is 1:1. The value of stock will be__________
   (a) ₹ 3,00,000 (b) ₹ 4,50,000 (c) ₹ 2,50,000 (d) ₹ 1,50,000

24. Stock turnover: 6 times Total sales: ₹ 3,00,000 Gross profit ratio: 20%
   Closing stock: ₹ 4,000 more than opening stock The opening stock is
   (a) ₹ 36,000 (b) ₹ 38,000 (c) ₹ 40,000 (d) ₹ 42,000

25. Which one of the following statements is correct
   (a) Lower debt-equity ratio means lower financial risk
   (b) Increase in net profit ratio means an increase in sales
   (c) A higher receivable turnover is not desirable
   (d) Interest coverage ratio depends upon the tax rate

26. Which of the following statement(s) is/are true:
   (i) Common size balance sheet is a vertical financial analysis
   (ii) Financial analysis performed on behalf of shareholders is called internal analysis
   (iii) Trend percentage may be used for both balance sheet and profit and loss account.
   Select the correct answer from the options given below
   (a) (i) and (ii) (b) (ii) and (iii) (c) (i) and (iii) (d) (ii) only

27. 8% Preference share capital: ₹ 3,00,000 Equity share capital ₹ 10: ₹ 8,00,000 per share)
   Profit after 30% tax : ₹ 2,80,000
   The market price of equity share: ₹ 40
   The earnings per share and the price-earnings ratio will be
   (a) ₹ 3.50 and 11.43 (c) ₹ 4.70 and 8.51
   (b) ₹ 5 and 8 (d) ₹ 3.20 and 12.50

28. Return on investment (ROI) is calculated to measure
   (a) Long-term solvency of a business
   (b) Earning power of net assets of the business
   (c) Short-term liquidity position of business
   (d) Goods sold and inventory level of business

29. Interest coverage ratio is obtained by dividing EBIT by

(a) Interest (b) Tax (c) Income (d) Sales

30. If the price-earnings ratio is 0.05 and earnings per share is ₹ 8, the market price of a share will be

(a) ₹ 120 (b) ₹ 100 (c) ₹ 160 (d) ₹ 0.40

31. Sun Ltd. has furnished the following relevant data of financial statements as of 31st March 2016:

Equity share capital (1,00,000 equity shares of ₹ 10 each)	10,00,000
General reserve	2,00,000
15% Debentures	2,80,000
Current liabilities	8,00,000
Fixed assets	30,00,000
Current assets	18,00,000

Annual fixed cost excluding 2,80,000 interest

Variable cost ratio 60%

Total assets turnover ratio 2.5 times Tax rate 30% Earnings per share (EPS) will be

(a) ₹ 31.35 (b) ₹ 15.80 (c) ₹ 20.00 (d) None

32. The relevant data from financial statements of Ross Ltd. as on 31st March, 2016 is given below:

Cash	1,50,000
Trade receivables	4,00,000
Investment (short-term)	3,30,000
Stock	25,00,000
Prepaid expenses	50,000
Current liabilities	10,00,000

The quick ratio will be –

(a) 0.88: 1 (b) 0.93: 1 (c) 3.43: (d) 3.1: 1

33. The net profit margin of Rose Ltd. is 8%, its total assets are ₹ 6,00,000 and the return on investment is 18%. Total assets turnover will be

(a) 2.05 (b) 3.15 (c) 2.25 (d) None

ANSWERS

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
(a)	(c)	(b)	(c)	(a)	(c)	(b)	(d)	(b)	(d)	(a)	(c)	(c)	(a)	(d)	(a)	(d)
18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	
(b)	(a)	(a)	(c)	(a)	(a)	(b)	(a)	(c)	(d)	(b)	(a)	(d)	(a)	(a)	(c)	

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CHAPTER-3
WORKING CAPITAL MANAGEMENT

1. Positive working capital means that_______
   (a) The company is able to pay off its long-term liabilities.
   (b) The company is able to select profitable projects.
   (c) The company is unable to meet its short-term liabilities.
   (d) The company is able to pay off its short-term liabilities.
2. Other things remaining constant, if the debtors increase as compared to last year it means -
   (a) Company has a poor credit policy
   (b) Company has a positive working capital
   (c) Company has a negative working capital
   (d) Company has no working capital
3. Contingencies are -
   (a) Added to gross working capital
   (b) Deducted from gross working capital
   (c) Contingencies are not considered in financial management; it is considered in accounts only
   (d) None of the above
4. For reducing and controlling working capital requirement which of the following step is required to be taken -
   (a) Increase in manufacturing cycle
   (b) Increase of credit period allowed by creditors to the extent that does not affect the production.
   (c) Increase in credit period given to customers
   (d) All of the above
5. While calculating Working Capital based on cash cost
   (a) Depreciation is ignored
   (b) Non-cash items are not considered
   (c) Debtors are calculated on the basis of the cost of goods sold and not on sale price
   (d) All of the above
6. Negative working capital means that -
   (a) The company has no current assets at all
   (b) The company currently is unable to meet its short-term liabilities
   (c) The company has negative earnings before interest and tax
   (d) The company currently is able to meet its short-term liabilities
7. Which of the following analyzes the accounts receivable, inventory, and accounts payable cycles in terms of a number of days?

	(a)	Operation cycle	(c)	Operating cycle
	(b)	Current asset cycle	(d)	Business cycle
8.	Fluctuating Working Capital is also called as -			
	(a)	Reserve Margin Working Capital	(c)	Permanent Working Capital
	(b)	Temporary Working Capital	(d)	Variable Working Capital
9.	A higher current assets/fixed assets ratio indicates -			
	(a)	Hedging Approach	(c)	Matching/hedging Approach
	(b)	Conservative Approach	(d)	Aggressive Approach
10.	Gross working capital refers to -			
	(a)	Amount utilized at the time of contingencies.		
	(b)	The firm's investment in current assets.		
	(c)	The capital which is required at the time of the commencement of business.		
	(d)	The working capital which is necessary on a continuous and uninterrupted basis.		
11.	If a firm has insufficient working capital and tries to increase sales, it can easily over-stretch the financial resources of the business. This is called -			
	(a)	Overrating	(c)	Overcoming
	(b)	Overtrading	(d)	Overtone
12.	Which of the following represents the amount utilized at the time of contingencies?			
	(a)	Reserve Working Capital	(c)	Extra working capital
	(b)	Net working capital	(d)	Fixed working capital
13.	Permanent Working Capital is also known as			
	(a)	Fixed working capital	(c)	Long term funds
	(b)	Temporary working capital	(d)	Gross margin working capital
14.	A lower current assets/fixed assets ratio means -			
	(a)	Matching/hedging Approach	(c)	Riskier current assets policy
	(b)	Aggressive current assets policy	(d)	Conservative current assets poHcy
15.	Any amount over and above the permanent level of working capital is known as working capital.			
	(a)	Temporary (b) Fluctuating	(c)	Variable (d) All
16.	Current assets are those assets -			
	(a)	Which can be sold by the companies.		
	(b)	Which are less important from a production angle.		
	(c)	Which are held by the companies to pay off current liabilities.		
	(d)	Which are converted into cash within a period of one year.		
17.	To carry on a business, a certain minimum level of working capital is necessary on a continuous and uninterrupted basis. This requirement is referred to as -			
	(a)	Permanent working capital	(c)	Fixed working capital
	(b)	Long term working capital	(d)	Both (A) and (C)

18. Which of the following is/are methods of maximum permissible bank finance as recommended by the Tandon Committee?
    (a) 75% of (Current Assets - Current Liabilities)
    (b) 50% of (Current Assets - Current Liabilities)
    (c) 75% of (Core Current Assets - Current Liabilities)
    (d) 50% of (Core Current Assets - Current Liabilities)
19. ________varies inversely with profitability.
    (a) Liquidity (b) Risk (c) Gross profit (d) None
20. ______refers to the difference between current asset and current liabilities.
    (a) Differential working capital (c) Operation working capital
    (b) Net working capital (d) None of the above
21. Which of the following is not correct with the matching strategy?
    (a) All assets should be financed with permanent long-term capital.
    (b) Temporary current assets should be financed with temporary working capital.
    (c) Long-term assets should be Financed from long-term capital.
    (d) Permanent current assets should be financed with permanent working capital.
22. What is the difference between the current ratio and the quick ratio?
    (a) The current ratio includes inventory and the quick ratio does not.
    (b) The current ratio does not include inventory and the quick ratio does.
    (c) The current ratio includes physical capital and the quick ratio does not.
    (d) The current ratio does not include physical capital and the quick ratio does.
23. WIP Conversion Period = 18 days Raw Material Consumed = ₹ 8,42,000 Stock of WIP = ₹ 72,000 Cost of Production = ?
    (a) ₹ 14,00,000 (b) ₹ 22,67,000 (c) ₹ 5,83,000 (d) ₹ 14,60,000
24. Maximum permissible bank finance as per the first method of Tandon Committee norms was ₹ 57,41,813 while current liabilities are reported at ₹ 32,50,000. Current assets =?
    (a) ₹ 1,09,05,750 (c) ₹ 1,09,07,550
    (b) ₹ 81/79,313 (d) ₹ 1,05,09,750
25. Current assets of Z Ltd. are ₹ 3,70,000 which includes stock ₹ 1,00,000 and prepaid expense K 70,000. Its current liability are ₹ 1,60,000 which includes provision for tax ₹ 60,000.Liquid Ratio =?
    (a) 1.25 (b) 1.52 (c) 1.22 (d) 0.95
26. KT Ltd.'s opening stock was ₹ 2,50,000 and the closing stock was ₹ 3,75,000. Sales during the year were ₹ 13,00,000 and the gross profit ratio was 25% on sales. Average accounts payable are ₹ 80,000. Creditors Turnover Ratio =?
    (a) 13.75 (b) 14.33 (c) 13.33 (d) 14.44
27. The raw material conversion period is 36 days. Raw material consumed and cost of goods sold in the year is ₹ 1,80,000& ₹ 2,16,000 respectively. How much raw material stock will

appear in the working capital statement? Note: 1 Year = 360 days

(a) ₹ 18,000 (b) ₹ 20,000 (c) ₹ 21,600 (d) ₹ 19,800

28. N Ltd. gives the following information: Current Ratio 2.8

Total assets ₹ 60,00,00

Fixed assets ₹ 32,00,000

Current liabilities =?

(a) ₹ 28,00,000 (b) ₹ 10,00,000 (c) ₹ 18,00,000 (d) ₹ 12,00,000

29. S Ltd. gives the following information: Networking capital ₹ 2,80,000

Current ratio 2.4

Liquid ratio 1.6

Current Assets =?

(a) ₹ 2,00,000 (b) ₹ 2,80,000 (c) ₹ 4,80,000 (d) ₹ 3,60,000

30. Debtors as per working capital statement = ₹ 3,00,000

Debtors collection period = 45 days

Gross profit ratio = 20%

Cash sales = ₹ 5,00,000

Note: 1 Year = 360 days Total sales = ?

(a) ₹ 24,00,000 (b) ₹ 19,00,000 (c) ₹ 29,00,000 (d) ₹ 25,00,000

31. NS Ltd. gives the following information:

Current Ratio = 2.4

Quick Ratio =1.0

Stock = ₹ 5,60,000

Current Assets = ?

(a) ₹ 9,60,000 (b) ₹ 6,90,000. (c) ₹ 4,00,000 (d) ₹ 4,60,000

32. No. of operating cycle in a year=4.5

No. of days in year = 360 days

Working capital = 8,40,000

Operating cost =?

(a) ₹ 35,00,000 (b) ₹ 37,80,000 (c) ₹ 36,40,000 (d) ₹ 38,80,000

33. If current assets are ₹ 1,09,05,750 and current liabilities are ₹ 32,50,000 then maximum permissible bank finance as per first method of Tandon Committee norms is -

(a) ₹ 57,41,813 (b) ₹ 49,29,313 (c) ₹ 52,29,813 (d) ₹ 49,41,813

34. Debtors velocity = 3 months Sales = ₹ 25,00,000

Bills receivable & Bills payable were ₹ 60,000 and ₹ 36,667 respectively.

Sundry debtors =?

(a) ₹ 6,25,000 (b) ₹ 5,25,000 (c) ₹ 5,65,000 (d) ₹ 6,65,000

35. Creditors velocity = 2 months.

Cost of goods sold = ₹ 20,00,000

Opening stock = ₹ 9,90,000

Closing stock = ₹ 10,10,000

Bills receivable & Bills payable were ₹ 60,000 and ₹ 36,667 respectively.

Creditors =?

(a) 3,36,667 (b) 3,66,333 (c) 3,30,367 (d) 3,00,000

36. If current assets are ₹ 1,09,05,750 and current liabilities are ₹ 32,50,000 then maximum permissible bank finance as per second method of Tandon Committee norms is__________

(a) ₹ 57,41,813 (b) ₹ 49,29,313 (c) ₹ 52,29,813 (d) ₹ 49,41,813

37. When the current ratio is 2:5, and the amount of current liabilities is ₹ 25,000, what is the amount of current assets?

(a) ₹ 62,500 (b) ₹ 12,500 (c) ₹ 10,000 (d) None

38. If credit sales for the year are ₹ 5,40,000 and Debtors at the end of the year are ₹ 90,000 the Average Collection Period will be?

Note: 1 year = 365 days

(a) 30 days (b) 61 days (c) 90 days (d) 120 days

39. K Ltd. had sales last year of ₹ 26,50,000, including cash sales of ₹ 2,50,000. If its average collection period was 36 days, its ending accounts receivable balance is closest to (Assume a 360 days year.)

(a) ₹ 2,40,000 (b) ₹ 2,36,712 (c) ₹ 2,63,127 (d) ₹ 2,40,721

40. Outstanding overheads appearing in the balance sheet are 9,75,000. Lag in payment of overheads is 30 days. Overheads accrue evenly throughout the year. Total overheads incurred by the company are - Assume 360 Days in a year.

(a) ₹ 1,17,00,000 (c) ₹ 2,92,50,000

(b) ₹ 32,500 (d) ₹ 1,92,50,000

41. If a firm has ₹ 100 in inventories, a current ratio equal to 1.2, and a quick ratio equal to 1.1, what is the firm's Net Working Capital?

(a) ₹ 10 (b) ₹ 100 (c) ₹ 200 (d) ₹ 1,200

ANSWERS

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
(d)	(a)	(a)	(b)	(d)	(b)	(c)	(c)	(c)	(b)	(b)	(a)	(a)	(b)	(d)	(d)
17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32
(d)	(a)	(a)	(b)	(a)	(a)	(d)	(a)	(a)	(a)	(a)	(b)	(c)	(c)	(a)	(b)
33	34	35	36	37	38	39	40	41							
(a)	(c)	(d)	(b)	(c)	(b)	(a)	(a)	(c)							

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Receivable Management

1. _______is an arrangement to have debts collected by a third party entity for a fee.
   (a) Factoring (b) Aging (c) Forming (d) Crediting
2. A decrease in the firm's receivables turnover ratio means that -
   (a) it is collecting credit sales more quickly than before
   (b) it is collecting credit sales more slowly than before
   (c) sales have gone down
   (d) inventories have gone up
3. The goal of receivables management is to maximize the value of the firm by achieving a trade-off between -
   (a) Risk & Profitability (c) Return & Profitability
   (b) Liquidity & Profitability (d) Return & Liquidity
4. Which of the following function is required to be performed by the finance manager in relation to proper management of receivables?
   (a) To obtain the optimum (not maximum) value of sales.
   (b) To adopt a relaxed policy for administrative expense.
   (c) To increase the opportunity cost of funds blocked in the receivables.
   (d) To make more purchases at bigger discounts.
5. The payment terms 2/10, Net 30 tell us that:
   (a) A 2% discount will be awarded if the payment is made within 10 days of the invoice date; otherwise, the full amount is payable within the next 10 days of the invoice date.
   (b) A 10% discount will be awarded if the payment is made within 20 days of the invoice date; otherwise, the full amount is payable within 30 days of the invoice date.
   (c) 296 discount will be awarded if the payment is made within 30 days of the invoice date; otherwise, the full amount is `payable within the next 10 days of the invoice date.
   (d) 296 discount will be awarded if the payment is made within 10 days of the invoice date; otherwise, the full amount is payable within 30 days of the invoice date.
6. Risk of non-payment may due to -
   (a) Insolvency (c) Intention of cheating
   (b) Liquidity problems (d) All of the above
7. The cash discount is given to customers for:
   (a) Early payments (c) Bulk purchase
   (b) Good business relations (d) Frequent purchases
8. The accounts receivable that cannot be collected because of their bankruptcy or another reason are termed as:

(a) Collectible accounts (c) Doubtful accounts

(b) Bad customers (d) Uncollectible accounts

9. Which of the following sentence describes a correct strategy for the proper administration of receivables?

(a) Most of the firms dissuade credit sales to first-time customers.

(b) Promoting cash sales

(c) Firms must have special staff earmarked for recovery efforts.

(d) (A) and (C)

10. Accounts receivable are reported in the balance sheet:

(a) At face value (c) At a net realizable value

(b) At a gross value (d) At net credit sales value

11. _______may also be offered for the early payment of dues.

(a) Trade discounts (c) Both (A) and (B)

(b) Special discounts (d) Cash discounts

12. An exercise of credit rating involves -

(a) Doing it internally by a team within the firm

(b) Doing it through external special agencies.

(c) (A) or (B)

(d) None of the above

13. An important means to get an insight into the collection pattern of debtors is the preparation of their -

(a) List of proposed discount (b) Discount schedule

(c) Schedule of personal formation of debtors

(d) Ageing Schedule

14. Which of the following may be a reason why you would choose a policy with a higher Average Collection Period (ACP)?

(a) a Lower percentage of collections inmate, dates.

(b) Higher percentage of collections in early dates.

(c) a Lower percentage of collections in early dates.

(d) Higher percentage of collections in middle dates

15. Selling accounts receivable to a third party at a reduced price is part of the collection process known as -

(a) Settling (b) Writing off (c) Suing (d) Factoring

16. In________type of factoring the bank/factor takes all the risk and bears all the loss in case of debts becoming bad debts.

(a) Non-Recourse Factoring (c) Maturity Factoring

(b) Invoice Discounting (d) Recourse Factoring

17. Which one of the following would help to reduce the number of accounts receivable delinquencies?
    (a) Ease the credit approval process
    (b) Know your customer situations
    (c) Refuse to extend payments
    (d) Stop sending reminder letters
18. In factoring arrangement the debts as and when fall due is collected by the -
    (a) Debtor (b) Seller (c) Factor (d) Agent
19. When net sales for the year are ₹ 2,50,000 and debtors ₹ 50,000, the average collection period is:
    (a) 60 days (b) 45 days (c) 42 days (d) 73 days
20. If credit sales for the year are ₹ 5,40,000 and Debtors at the end of the year is ₹ 90,000 the Average Collection Period will be -
    (a) 30 days (b) 61 days (c) 90 days (d) 120 days
21. Total sales of LMN Ltd. are ₹ 31,248 out of which 25% are cash sales. The closing balance of debtors is ₹ 9,468. Debtors velocity =?
    (a) 4.2 months
    (b) 157 days
    (c) 148 days
    (d) 4.43 months
22. Debtors velocity = 3 months Sales = ₹ 25,00,000 Bills receivable & Bills payable were ₹ 60,000 and ₹ 36,667 respectively Sundry debtors =?
    (a) ₹ 6,25,000 (b) ₹ 5,25,000 (c) ₹ 6,65,000 (d) ₹ 5,65,000
23. K Ltd. had sales last year of ₹ 26,50,000, including cash sales of ₹ 2,50,000. If its average collection period was 36 days, its ending accounts receivable balance is closest to (Assume a 365 day year.)
    (a) ₹ 2,63,127 (b) ₹ 2,40,000 (c) ₹ 2,36,712 (d) ₹ 2,40,721
24. F Ltd. is examining the relaxation of its credit policy. It sells at present 20,000 units at a price of K 100 per unit, the variable cost per unit is ₹ 88 and the average cost per unit at the current sales volume is ₹ 92. All the sales are on credit, the average collection period being 36 days. A relaxed credit policy is expected to increase sales by 10% and the average age of receivables to 60 days. Assuming a 15% return, should F Ltd. relax its credit policy? Note: 1 Year = 360 days
    (a) Yes, F Ltd. can change its policy as it leads to a 15.79% increase in profit
    (b) No, F Ltd. need not change its policy as there is no incremental return.
    (c) Yes, F Ltd. can change its policy as it leads to the incremental return of ₹ 2,400.
    (d) None of the above options is correct.
25. Average cost increases from ₹ 88 to ₹ 92. Incremental profit & incremental debtors are ₹ 48,000 & ₹ 3,04,000 respectively. The cost of capital is 15%. What is the rate of incremental return on change of credit policy?
    (a) 15.79%
    (b) No incremental return
    (c) 0.79%
    (d) 1.58%

ANSWERS

1	2	3	4	5	6	7	8	9	10	11	12	13
(a)	(b)	(a)	(a)	(d)	(d)	(a)	(d)	(d)	(c)	(d)	(c)	(d)
14	15	16	17	18	19	20	21	22	23	24	25	
(b)	(d)	(a)	(b)	(c)	(d)	(b)	(c)	(d)	(c)	(a)	(a)	

Inventory Management

1. Which type of material is classified as 'A' type in ABC analysis
   (a) High price, more quantity (c) Low price, more quantity
   (b) High price, less quantity (d) Low price, less quantity

2. Which of the following is recorded by bin card
   (a) Quantity. (c) Value
   (b) Quantity and value (d) Quality

3. If the minimum stock level and average stock level of raw material 'A' are 4,000 & 9,000 emits respectively, what is its reorder quantity
   (a) 8,000 units (c) 10,000 units
   (b) 11,000 units (d) 9,000 units

4. The method of regular physical verification of material throughout the year is known as
   (a) Periodic stock taking (c) Continuous stock taking
   (b) Bin card system (d) Stock ledger system

5. In an inflationary situation, which system of inventory valuation shows higher profits
   (a) UFO (c) HIFO
   (b) FIFO (d) Weighted average

6. A company manufactures 5,000 units of a product per month. The cost of placing an order is ₹ 100. The purchase price of the raw material is ₹ 10 per kg. The average consumption of raw material is 275 kg per week. The carrying cost of inventory is 20% per annum. The economic order quantity is_
   (a) 1,196 kg (b) 707 kg (c) 2,449 kg (d) 2,400 kg

7. A store ledger is a record of receipts, issues, and closing balances of material by entering
   (a) Quantity only (c) Value only
   (b) Quantity and value (d) Quality only

8. Bill of material acts as an authorization to the store's department in procuring the material and all the materials listed on the bill is sent to the.
   (a) Sales department (c) Accounts department
   (b) The Production department (d) q Stores department

9. Which of the following method is based on the assumption that the costliest materials are issued first and inventory is valued at the lowest possible price
   (a) FIFO method (c) Highest-in-first-out method
   (b) UFO method (d) `Weighted average method

10. For a product-X, the following information is available:
    Maximum consumption per week: 300 units Normal consumption per week: 200 units Re-order period: 2 to 4 weeks The re-order level will be
    (a) 400 units (b) 200 units (c) 600 units (d) 800 units

11. A company requires 1,500 units, of an item per month. The cost of each unit is Rs. 30. The cost of placing an order is Rs. 200 and the material carrying charges work out to be 20% of the average material. The economic order quantity (EOQ) is
(a) 1,095 units (b) 316 units (c) 490 units (d) 33 units

12. In case of rising prices, the FIFO method will provide
(a) Lowest value of closing stock and profit
(b) Highest value of closing stock and profit
(c) Highest value of the closing stock but the lowest value of profit
(d) Lowest value of the closing stock but highest value of profit

13. FIFO method of valuing material issues is suitable in times of__________
(a) Rising prices
(b) Falling prices
(c) Price fluctuation
(d) Boom period

14. About 50 units are required every day for a machine. A fixed cost of ₹ 50 is incurred for placing an order. The inventory carrying cost per unit amounts to ₹ 0.02 per day. The lead period is 32 days. Economic Order Quantity is
(a) 200 Units (b) 300 Units (c) 500 Units (d) 100 Units

15. EOQ is 200 units, ordering cost Rs. 20 per order, and total purchases 4,000 units. The carrying cost per unit will be
(a) ₹ 2 (b) ₹ 6 (c) ₹ 4 (d) None

16. In a situation of rising prices, profit and tax liability would be lower under method than under method of material issue pricing
(a) FIFO; LIFO
(b) LIFO; FIFO
(c) LIFO; Average
(d) FIFO; Average

17. The technique of economic order quantity is losing significance since the development of
(a) Perpetual inventory
(b) Just-in-time
(c) First-in-first-out
(d) ABC analysis

18. The following information is given for Component 'A': Normal usage 50 units per week, maximum usage 75 units per week, reorder period 4 to 6 weeks. The minimum level of stock will be
(a) 250 Units (b) 150 Units (c) 450 Units (d) 200 Units

19. Quarterly consumption of materials: 2,000 kg; Cost of placing an order: Rs. 50; Cost per unit: Rs. 40; Storage and other carrying costs: 8% of average inventory. The economic order quantity and number of orders to be placed per quarter of the year will be
(a) 400 kg and 5 orders
(b) 500 kg and 4 orders
(c) 500 kg and 12 orders
(d) 400 kg and 6 orders

20. Which one of the following is the correct sequence of the purchase procedure of inventory_______
(a) Indenting for material, issuing tenders, receiving quotations, and placing order

(b) Issuing tenders and receiving quotations, indenting for material, and placing order

(c) Placing order, issuing tenders and receiving quotations, and indenting for material

(d) Indenting for material and placing order

21. ______account does not record the balance of stores ledger control account.

(a) Manufacturing (c) Profit and loss

(b) Trading (d) Work-in-progress

22. A firm requires 12,800 units of a certain component which it buys @ Rs. 60 each. The cost of placing an order and following it up is Rs. 150 and annual storage charges work out to 10% of the cost of items. The number of units to be ordered to get maximum benefit to the firm are

(a) 1,000 (b) 900 (c) 800 (d) 320

23. A written comprehensive order, with specification, material code, and quantity sent to inform the purchasing department, of a need for material is called

(a) `Purchase order (c) Purchase requisition

(b) Bill of material (d) Bin card

24. Amaze Ltd. had an opening inventory of 5,000 units costing ₹ 5 per unit on 1st April. Following receipts and issues took place in April:

5th April: Purchased 800 units @ ₹ 8 per unit 12th April: Purchased 200 units @ ₹ 8 per unit 15th April: Issued 3,000 units 25th April: Purchased 1,000 units @ ₹ 9 per unit Cost of inventory as of 30th April under weighted average basis will be:

(a) ₹ 25,500 (b) ₹ 27,000 (c) ₹ 20,000 (d) ₹ 23,500

25. A company produces a single product for which the following data is available:

Average production per week: 200 units

Usage per unit: 10 kg Re-order level: 8,000 kg

Delivery time required: 2 weeks

The minimum level of stock required will be

(a) 3,000 kg (b) 5,000 kg (c) 4,000 kg (d) 2,500 kg

26. Which of the following is considered as normal loss of material

(a) Pilferage (c) Loss due to accident

(b) Loss due to flood (d) None of the above

27. The maximum and minimum lead time is 4 weeks and 3 weeks respectively. If the maximum and minimum weekly consumption is 25 units and 20 units respectively, the re-ordering level will be

(a) 100 Units (b) 110 Units (c) 120 Units (d) 140 Units

28. A, B, C analysis is

(a) a system of profit planning (b) a technique of financial analysis

(c) a technique of inventory control (d) a technique of profit determination

29. Two avoidable reasons for the difference between bin card and physical quantity of material may be and wrong posting in the bin card.
    (a) Pilferage (b) Normal (c) Abnormal (d) Reasonable

30. When prices fluctuate widely, which of the following method will even out the effect of fluctuations?
    (a) Weighted average (c) UFO
    (b) FIFO (d) Simple average

31. In which of the following methods, material issues are priced at a predetermined rate?
    (a) Replacement price method (c) Inflated price method
    (b) Specific price method (d) Standard price method

32. Which of the following does not normally appear on a material requisition form?
    (a) Job number (c) Supplier's name
    (b) Unit cost (d) Quantity requisitioned

33. Which of the following difference in material stock adjusted by considering as part of the material cost?
    (a) Apparent differences
    (b) Differences due to abnormal causes
    (c) Differences due to avoidable causes
    (d) Differences due to unavoidable causes

34. This type of loss is connected with both input and output:
    (a) Waste (b) Scarp (c) Defectives (d) All

35. Decision regarding the centralized purchase of material has to be taken on the basis of:
    (a) Geographical separation of plant (c) Type of material to be purchased
    (b) Homogeneity of products (d) All of the above

36. Rate per kg of material P, Q, R & S are respectively ₹ 12, ₹ 15, ₹ 18 & ₹ 21. Input-output ratios of the material are 140%, 130%, 120% & 110% respectively. Most economical material for production
    (a) P (b) Q (c) R (d) S

37. If the annual carrying cost of Material Z is ₹ 4 per unit and its total carrying cost is ₹ 12,000 p.a., the economic order quantity of material is:
    (a) 3,000 units (c) 5,000 units
    (b) 4,000 units (d) 6,000 units

38. Which of the following is not correct for the calculation of the re-ordering level of inventory?
    (a) Maximum consumption x Maximum re-order period
    (b) (Maximum consumption x Lead time) + Safety stock
    (c) Minimum level + Consumption during time lag period
    (d) (Maximum consumption x Lead time) - Safety stock

39. ________is a value-based system of inventory control, in which materials are analyzed according to their value so that costly and more valuable materials are given greater attention.

(a) MAX-MIN plan (b) Review of slow and non-moving items
(c) ABC Analysis (d) Order cycling system

40. Opening stock ₹ 29,000 Closing stock ₹ 31,000 Cost of goods sold ₹ 2,40,000. The stock turnover ratio will be:

(a) 12 times (b) 10 times (c) 8 times (d) 9 times

41. If EOQ is 200 units, ordering cost is ₹ 20per order and total purchases are 4,000 units. The carrying cost per unit will be:

(a) ₹ 4 (b) ₹ 6 (c) ₹ 8 (d) ₹ 2

42. In the technique of inventory control, quantities in the hand of each item or class of stock are reviewed periodically say 30, 45, or 60 days.

(a) ABC Analysis (c) Order Cycling System
(b) Two-bin System (d) Perpetual Inventory System

43. If the Minimum Stock Level is 2,500 units. Normal Consumption is 150 units. Maximum Re-order Period is 10 days and Normal Re-order Period is 8 days, then Reorder Level will be:

(a) 1,500 units (b) 4,000 units (c) 1,200 units (d) 3,700 units

44. _______ method of pricing of material issues is not popular as it always undervalues the stock and leads to the creation of the secret reserve.

(a) Weighted Average Price (c) Highest in First Out
(b) Base Stock (d) Standard Price

45. The monthly requirement of a component is 4,000 units. The cost per order is ₹ 1,000 and the carrying cost per unit per annum is ₹ 24. The Economic Ordering Quantity is:

(a) 2,000 units (c) 577.35 units
(b) 4,000 units (d) 1,825.74 units

46. During the time of inflation, which method of pricing of material issues leads to higher material costs for a job?

(a) First in first out method (c) Highest in first out method
(b) Last in first out method (d) Standard pricing method

47. The following information is given: 10,0 units of material are consumed per year; per-unit cost is ₹ 20; cost of processing an order is ₹ 50; Annual interest rate is 5%; Annual carrying cost of material per unit is 15% (other than interest). What would be the Economic Order Quantity (EOQ)?

(a) 200 units (b) 500 units (c) 400 units (d) 100 units

48. Which of the following is the objective of inventory management?

(a) To ensure timely delivery of inventory for production
(b) To avoid under or overproduction

(c) To maintain investment in inventories at the lowest level

(d) All of the above

49. Smoke, dust, gases, and loss of weight due to seasoning are examples of

(a) Scrap (b) Spoilage (c) Defectives (d) Waste

ANSWERS

1	2	3	4	5	6	7	8	9	10	11	12	13	14
(b)	(a)	(c)	(c)	(b)	(a)	(b)	(b)	(c)	(b)	(a)	(b)	(b)	(c)
15	16	17	18	19	20	21	22	23	24	25	26	27	28
(c)	(b)	(b)	(d)	(b)	(a)	(b)	(c)	(b)	(a)	(c)	(d)	(a)	(c)
29	30	31	32	33	34	35	36	37	38	39	40	41	42
(a)	(a)	(d)	(c)	(d)	(a)	(d)	(a)	(d)	(b)	(c)	(c)	(a)	(c)
43	44	45	46	47	48	49							
(d)	(c)	(a)	(b)	(b)	(d)	(d)							

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Management of Cash & Marketable Securities

1. Which of the following will NOT appear in a Cash Budget?
   (a) Machinery bought on hire purchase
   (b) Depreciation of machinery
   (c) Sales revenue
   (d) Wages
2. Which of the following is not true about a cash budget?
   (a) Cash budget sets out all cash receipts and payments that a business expects to make over a period of time.
   (b) Cash budgets are usually prepared on a month-to-month basis.
   (c) Cash budgets show the expected bank balance at the end of the month.
   (d) Cash budgets include personal cash receipts and expenses
3. Of the four costs shown below, which would not be included in the cash budget of an insurance firm?
   (a) Depreciation of a fixed asset
   (b) Commission paid to agents
   (c) Office salaries
   (d) Capital cost of a new computer
4. NSZ Ltd. cash budget forewarns of a short-term surplus. Which of the following would be the appropriate action to be taken in such a situation?
   (a) Increase debtors and stock to boost sales
   (b) Purchase new fixed assets
   (c) Repay long term loans
   (d) All of the above
5. Which of the following is least likely to be considered short-term marketable security?
   (a) An original issue 30 years corporate bond with 1 year remaining until final maturity.
   (b) An original issue 30 years government bond with 1 year remaining until final maturity.
   (c) 90 days Treasury bill.
   (d) Short-term corporate debt instruments with 9 months original maturity.
6. Which of the following would NOT lead to an increase in net cash flow?
   (a) Larger sales volume
   (b) Reduced materials costs
   (c) Lower depreciation charge
   (d) Higher selling price
7. The optimal balance of marketable securities held to take care of probable deficiencies in the firm's cash account is referred to as the segment in the firm's portfolio of short-term marketable securities.
   (a) Ready cash
   (b) Controllable cash
   (c) Free cash
   (d) Cash and cash equivalent
8. Advantages of maintaining cash budgets would not include one of the following:
   (a) Surplus cash can be put to more profitable uses if expected to occur

(b) Debtors can be paid more quickly
(c) Time is available to investigate the possible future sources of finance
(d) Overdrafts can be negotiated in advance of when they are needed

9. Which of the following statements most accurately describes the modern approach to cash management?
(a) Cash Management involves the efficient disbursement of cash.
(b) Cash management involves the efficient collection and disbursement of cash.
(c) Cash management involves the efficient processing, collection, and depositing of cash.
(d) None of the above

10. Which of the following would be found in a cash budget?
(a) Capital expenditure
(c) Depreciation
(b) Provision for doubtful debts
(d) Accrued expenditure

11. Collection float is the
(a) Total time between the mailing of the cheque by the customer and the availability of cash to the receiving firm.
(b) Time consumed in clearing the cheque through the banking system.
(c) Time the cheque is in the mail.
(d) Time during which the cheque received by the firm remains uncollected.

12. Which of the following will not affect the preparation of the cash budget?
(a) Loan is taken by the firm
(b) Proceeds from asset disposal
(c) Reduction in provision for doubtful debts
(d) Cash sales

13. Deposit float is the
(a) Total time between the mailing of the cheque by the customer and the availability of cash to the receiving firm.
(b) Time consumed in clearing the cheque through the banking system.
(c) Time the cheque is in the mail.
(d) Time during which the cheque received by the firm remains uncollected.

14. Availability float is the
(a) Total time between the mailing of the cheque by the customer and the availability of cash to the receiving firm.
(b) Time consumed in clearing the cheque through the banking system.
(c) Time the cheque is in the mail.
(d) Time during which the cheque received by the firm remains uncollected.

15. Cash management is a broad term used for collecting and managing cash. The speculative motive of holding cash refers to -
(a) Holding the cash to utilize it in internal projects.

	(b)	Holding the cash for any future loss the company is expecting.
	(c)	Holding the cash to avail of any future investment opportunity.
	(d)	Holding the cash to utilize it for an international project.
16.	Non-cash transactions	
	(a)	Form part of cash budget
	(b)	Do not form part of cash budget
	(c)	May or may not form part of cash budget
	(d)	I cannot say whether they are part of the cash budget
17.	The statement of cash flows tells us_	
	(a)	The financial position of the business at a point in time.
	(b)	The forecast cash movements over a period of time.
	(c)	How much cash has been received and paid during an accounting period.
	(d)	How much profit the business has made during an accounting period.
18.	Net profit + Non-cash expenditure	
	(a)	Cash profit (c) Out of cash
	(b)	Cashflow (d) Cash gross profit
19.	Cash flow is -	
	(a)	Linked only to the balance sheet.
	(b)	Linked only to the income statement.
	(c)	Not linked to the balance sheet or income statement.
	(d)	Linked to the balance sheet and income statement.
20.	The term cash includes	
	(a)	Cash and Bank Balances (c) All the Current Liabilities
	(b)	All the Current Assets (d) None of the above
21.	Z Ltd. has an estimated cash payment of ₹ 8,00,000 for a one-month period and the payments are expected to steady over the period. The fixed cost per transaction is ₹ 250 and the interest rate on marketable securities is 12% p.a. Optimal cash balance = ?and No. of transaction =?	
	(a)	20,000; 4.8 (c) 20,00,000;480
	(b)	2,00,000; 48 (d) 2,00,00,000;4,800
22.	If the beginning balance of cash is ₹ 5,000 and the desired closing cash balance is ₹ 10,000, with the only other cash-related items being sales/revenue ₹ 15,00,000, direct materials purchases ₹ 10,45,000, and cost of direct labor ₹ 4,68,000, what would be the surplus or deficit of cash at the end of the period?	
	(a)	Deficit of ₹ 8,000 (b) Surplus of ₹ 18,000 (c) Deficit of ₹ 18,000
23.	The annual cash requirement of A Ltd. is ₹ 10,00,000. The company has marketable securities in lot size of ₹ 1,00,000. The cost of conversion of marketable securities per lot is ₹ 1,000. The company can earn a 5% annual yield on its securities. Calculate the total cost.	
	(a)	₹ 10,500 (b) ₹ 10,450 (c) ₹ 12,500 (d) ₹ 14,500

24. Z Ltd. has a separate account for cash disbursement. Estimated cash payments of ₹ 6,56,250 for a one-month period and the payments are expected to steady over the period. The fixed cost per transaction is ₹ 20 and the interest rate on marketable securities yields 10% p.a.
    (a) ₹ 57,283 (b) ₹ 56,125 (c) ₹ 57,125 (d) ₹ 56,283
25. The annual cash requirement of A Ltd. is ₹ 10,00,000. The cost of conversion of marketable securities per lot is ₹ 1,000. The company can earn a 5% annual yield on its securities. Optimal cash balance = ? and No. of transactions =?
    (a) 1,00,000; 5 (c) 2,00,000; 5
    (b) 4,00,000; 10 (d) 2,00,000; 10
26. The following information is available: Wages for January: ₹ 20,000 Wages for February: ₹ 22,000 Delay in payment of wages: 1/2 month
    The amount of wages paid during the month of February is
    (a) ₹ 11,000 (b) ₹ 22,000 (c) ₹ 20,000 (d) ₹ 21,000
27. Estimated wages for January is ₹ 4,000 and for February ₹ 4,400. If the delay in payment of wages is 112 month, the number of wages to be considered in the cash budget for the month of February will be________
    (a) ₹ 4,000 (b) ₹ 4,400 (c) ₹ 4,600 (d) ₹ 4,20
28. Consider the following statements:
    (1) Depreciation reduces tax liability, hence it is a source of funds.
    (2) Decrease in current liabilities during the year results in an increase in working capital.
    (3) The term cash equivalents include short-term marketable investments.
    (4) Conversion of debentures into equity shares appears in the fund's flow statement.
    (5) Only non-cash expenses are added to net profit to find out funds from operation.
    Select the incorrect statements from the options given below:
    (a) (1), (3), (4), and (5) (c) (1), (4), and (5)
    (b) (1), (2), (4), and (5) (d) (2), (3), and (4)
29. Which of the following involves a movement of cash?
    (a) A bonus issue (c) Depreciation of fixed assets
    (b) A right issue (d) Provision for taxes
30. Working capital will not change if there is:
    (a) Increase in current assets (c) Decrease in current liabilities
    (b) Payment to the creditors (d) Decrease in current assets
31. Which one of the following is false?
    (a) If cash outflows exceed cash inflows on an ongoing basis, the business will eventually run out of cash.
    (b) Rapidly expanding companies can sometimes face a cash shortage.
    (c) Cash is the lifeblood of a business and without it, the business will die.
    (d) A profitable company will never run out of cash.

32. The following information extracted from the records of P Ltd.

Sales for October, November and December, 2018 are ₹ 90,000,11,10,000 and ₹ 80,000 respectively. 40% of its sales are expected to be for cash. Of its credit sales, 70% are expected to pay in the month after-sales and take 2% discount on it. Balance is expected to pay in second-month after-sales and 3% of it is expected to bad debts.What are the sales receipts to be shown in the cash budget for the month of December?

(a) ₹ 92,990 (b) ₹ 1,23,174 (c) ₹ 95,609 (d) None

33. The following information is given:

Depreciation provided during the year: Furniture ₹ 15,000, Building ₹ 14,000. The statement of P&L for the year:

Opening balance ₹ 38,500 Add Profit for the year ₹ 40,300, Less: Goodwill wrote off ₹ 15,000, Closing balance ₹ 3,800.What will be the amount of cash from operations?

(a) ₹ 69,300 (b) ₹ 54,300 (c) ₹ 78,800 (d) ₹ 25,300

ANSWERS

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
(b)	d)	(a)	(a)	(a)	(c)	(a)	(b)	(c)	(c)	(a)	(c)	(d)	(b)	(c)
16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
(b)	(c)	(a)	(d)	(a)	(b)	(c)	(c)	(b)	(c)	(d)	(d)	(c)	(b)	(b)
31	32	33												
(d)	(d)	(a)												

CHAPTER-4
RISK AND LEVERAGE ANALYSIS

1. The term Leverage in general refers to a
   (a) Relationship between fixed cost and profit.
   (b) Relationship between sales and fixed cost.
   (c) Relationship between two inter-related variables.
   (d) Relationship between two unrelated variables
2. In financial analysis, Leverage represents the influence of one_over some other related
   (a) Non-financial variable; financial variable
   (b) Financial variable; financial variable
   (c) Financial variable; non-financial variable
   (d) Variable relating to revenue; financial variable
3. Which of the following are not commonly used measures of leverage in financial analysis?
   (a) Operating Leverage (c) Combined Leverage
   (b) Financial Leverage (d) Matrix Leverage
4. ________is the ratio of net operating income before fixed charges to net operating income after fixed charges.
   (a) Financial Leverage (c) Operation Leverage
   (b) Operating Leverage (d) Fiscal Leverage
5. Degree of is the ratio of the percentage increase in earnings per share (EPS) to the percentage increase in earnings before interest and taxes (EBIT).
   (a) Operating Leverage (c) Working Capital Leverage
   (b) Combined Leverage (d) Financial Leverage
6. EBIT is usually the same thing as:
   (a) Funds provided by operations (c) Net income
   (b) Earnings before taxes (d) Operating profit
7. Which of the following, is the correct formula to calculate Operating Leverage?
   (a) $\text{OperationLeverage} = \frac{\text{Contribution}}{\text{EBIT}}$ (b) $\text{OperationLeverage} = \frac{\text{EBIT}}{\text{Contribution}}$
   (c) $\text{OperationLeverage} = \frac{\text{EBIT}}{\text{Contribution}}$ (d) $\text{OperationLeverage} = \frac{\text{EBT}}{\text{EBIT}}$
8. In the context of operating leverage break-even analysis, if the selling price per unit rises and all other variables remain constant, the operating break-even point in units will:
   (a) Fall
   (b) Rise
   (c) Stay the same
   (d) Still be indeterminate until interest and preferred dividends paid are known

9. Which of the following is the correct formula to calculate Operating Leverage?

(a) $\frac{\%\text{Change in EPS}}{\%\text{Change in Sales}}$

(b) $\frac{\%\text{Change in EBIT}}{\%\text{Change in EPS}}$

(c) $\frac{\%\text{Change in EBIT}}{\%\text{Change in Sales}}$

(d) $\frac{\%\text{Change in Sales}}{\%\text{Change in EBIT}}$

10. A firm's degree of total leverage (DTL) is equal to its degree of operating leverage its degree of financial leverage (DFL).

(a) Plus
(b) Minus
(c) Divided by
(d) Multiplied by

11. If operating leverage is 4, this means that

(a) 4% change in sales will cause a 1% change in EBU.
(b) 1% change in sales will cause a 4% change in EBIT.
(c) 1% change in sales will cause a 4% change in EPS.
(d) 4% change in sales will cause a 1% change in EPS.

12. The degree of total leverage can be applied in measuring the change in

(a) EBIT to a percentage change in sales
(b) EPS to a percentage change in EBIT
(c) CEPS to a percentage change in sales
(d) Sales to a percentage change in EBIT

13. If the fixed costs are high, the operating leverage will also be

(a) Low (b) High (c) Zero (d) Negative

14. The measure of business risk is

(a) Operating leverage
(b) Financial leverage
(c) Combines leverage
(d) Working capital leverage

15. The presence of fixed costs in the total cost structure of firm results into

(a) Financial Leverage
(b) Operating Leverage
(c) Super Leverage
(d) Progressive leverage

16. High operating leverage indicates

(a) Highly favorable situation as it consists of low fixed costs.
(b) The Highly risky situation as it consists of large interest costs.
(c) Highly favorable situation as it consists of higher EPS.
(d) The Highly risky situation as it consists of large fixed costs.

17. Which of the following is the correct formula to calculate Financial Leverage?

(a) $\text{Financial Leverage} = \frac{\text{EBT}}{\text{EBIT}}$

(b) $\text{Financial Leverage} = \frac{\text{EPS}}{\text{EBT}}$

(c) $\text{Financial Leverage} = \frac{\text{EBIT}}{\text{EBT}}$

(d) $\text{Financial Leverage} = \frac{\text{EBIT}}{\text{EPS}}$

18. A firm has a DOL of 4.5 at Q units. What does this tell us about the firm?
    (a) If sales rise by 4.5%, then EBIT will rise by 1%.
    (b) If EBIT rises by 4.5%, then EPS will rise by 1%.
    (c) If EBIT rises by 1%, then EPS will rise by 4.5%.
    (d) If sales rise by 1%, then EBIT will rise by 4.5%

19. Operating leverage is directly_____ to business risk.
    (a) Proportional
    (b) Not proportional
    (c) Unrelated
    (d) Not related

20. A firm has a DFL of 5.5. What does this tell us about the firm?
    (a) If sales rise by 5.5%, then EBIT will rise by 1%.
    (b) If EBIT rises by 5.5%, then EPS will rise by 1%.
    (c) If EBIT rises by 1%, then EPS will rise by 5.5%.
    (d) If sales rise by 1%, then EBIT will rise by 5,5%.

21. More operating leverage leads to
    (a) Less financial risk
    (b) More financial risk
    (c) More business risk
    (d) Less business risk

22. Which of the following is the correct formula to calculate Financial Leverage?
    (a) $\frac{\%\text{Change in EPS}}{\%\text{Change in EBIT}}$
    (b) $\frac{\%\text{Change in EBIT}}{\%\text{Change in EPS}}$
    (c) $\frac{\%\text{Change in EBT}}{\%\text{Change in EPS}}$
    (d) $\frac{\%\text{Change in Contribution}}{\%\text{Change in EPS}}$

23. Higher operating leverage is related to the use of additional
    (a) Fixed costs
    (b) Variable costs
    (c) Debt financing
    (d) Common equity financing

24. Financial leverage indicates
    (a) The tendency of profit before tax (PBT) to vary disproportionately with sales.
    (b) The tendency of sales to vary disproportionately with the fixed cost.
    (c) The tendency of profit after tax (PAT) to vary disproportionately with the fixed cost.
    (d) The tendency of profit before tax (PBT) to vary disproportionately with operating profit (EBIT).

25. Lower financial leverage is related to the use of additional
    (a) Fixed costs
    (b) Variable costs
    (c) Debt financing
    (d) Common equity financing

26. The operating leverage indicates the impact of changes in sales on
    (a) Operating income
    (b) Operating cost
    (c) Operating profit after tax
    (d) Operating sales

27. If financial leverage is 2.5, this means that
    (a) 2.5% change in EBIT will cause a 1% change in EBIT

(b) 1% change in sales will cause a 2.5% change in EBIT

(c) 2.5% change in sales will cause a 1% change in EBIT

(d) 1% change in EBIT will cause a 2.5% change in EBIT

28. Where a company has a large number of fixed interest charges, the financial leverage will be

(a) High (b) Low (c) Negative (d) Unreliable

29. The maximum amount of debt (and other fixed-charge financings) that a firm can adequately service is referred to as the_______

(a) Debt capacity (c) Adequacy capacity

(b) Debt-service burden (d) Fixed-charge burden

30. High financial leverage is not good as it indicates the large content of

(a) Fixed cost (c) Variable cost charges

(b) Fixed interest charges (d) Contribution

31. Cash required during a specific period to meet interest expenses and principal payments is referred to as the:

(a) Debt capacity (c) Adequacy capacity

(b) Debt service burden (d) Fixed charge burden

32. Earnings to equity shareholders (EPS) will fluctuate violently if

(a) Financial leverage is very high

(b) Operating leverage is very high

(c) Working capita! leverage is very high

(d) Operating leverage is very low

33. If the Return on Investment (ROI) exceeds the rate of interest on debt, it is financial leverage..

(a) Unfavourable (c) A favorable

(b) Adverse (d) Negative

34. High operating leverage combined with high financial leverage will constitute

(a) Favourable situation (c) Less risky situation

(b) Positive situation (d) Risky situation

35. Which of the following can be treated as *Ideal Situation?

(a) High operating cost and low financial leverage.

(b) Low operating leverage and high financial leverage.

(c) Operating & financial leverage both should below.

(d) Operating & financial leverage both should be high.

36. Which of the following statement is correct?

(a) If a business firm has a lot of variable costs as compared to fixed costs, then the firm is said to have high operating leverage.

(b) Combined Leverage = % change in EPS multiplied by % change in Sales

(c) If a business firm has a lot of fixed costs as compared to variable costs, then the firm is said to have high operating leverage.

(d) If contribution is less than fixed cost, operating leverage will be favorable and vice versa.

37. Degree of______is the ratio of percentage change in gaming per share to the percentage change in sales.

(a) Financial leverage (c) Combined leverage

(b) Operating leverage (d) Working leverage

38. If operating leverage is, 2.1429 and financial leverage is 1.0699 then combined leverage will be

(a) 2.2927 (c) 0.4993

(b) 2.0029 (d) Data given is not sufficient

39. If combined leverage is 2 and financial leverage is 1.25 then operating leverage will be

(a) 0.625 (c) 1.60

(b) 2.50 (d) Data given is not sufficient

40. If combined leverage is 2.2926 and operating leverage is 2.1429 then financial leverage will be

(a) 1.0699 (c) 4.9128

(b) 0.9347 (d) Data given is not sufficient

41. A company has sales of ₹ 1 lakh. The variable costs are 40% of the sales while the fixed operating costs amount to ₹ 30,000. The amount of interest on long-term debts is ₹ 10,000. You are required to calculate the combined leverage.

(a) 4 (b) 2 (c) 3 (d) 5

42. Operating leverage is 4. This means a 10% change in sales will cause

(a) 4% change in variable cost (c) 4% change in EBIT

(b) 40% change in EPS (d) 40% change in EBIT

43. Financial leverage is 2.5. This means a 10% change in EBIT will cause

(a) 2.5% change in EBIT (c) 25% change in sales

(b) 2.5% change in EPS (d) 25% change in EBT and EPS

44. The combined leverage is 3.125. This means a 10% change in Sales will cause

(a) 31.25% change in PAT (c) 31.25% change in capital employed

(b) 31.25% change in EPS (d) Both (A) and (B)

45. If there is a 10% increase in sales, EBIT increases by 35% and if sales increase by 6%, taxable income will increase by 24%. Operating leverage must be

(a) 1.15 (b) 3.50 (c) 4.00 (d) 2.67

46. If EBIT increases by 696, taxable income increases by 6.9%. If sales increase by 6%, taxable income will increase by 24%. Financial leverage must be

(a) 1.19 (b) 1.13 (c) 1.12 (d) 1.15

ANSWERS

1	2	3	4	5	6	7	8	9	10	11	12	13	14
(c)	(b)	(d)	(b)	(d)	(d)	(a)	(a)	(c)	(d)	(b)	(c)	(b)	(a)
15	16	17	18	19	20	21	22	23	24	25	26	27	28
(b)	(d)	(d)	(d)	(a)	(c)	(c)	(a)	(a)	(d)	(d)	(a)	(d)	(a)
29	30	31	32	33	34	35	36	37	38	39	40	41	42
(a)	(b)	(b)	(a)	(a)	(d)	(c)	(c)	(c)	(a)	(c)	(a)	(c)	(d)
43	44	45	46										
(d)	(d)	(b)	(d)										

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CHAPTER-5 COST & CAPITAL STRUCTURE

1. In which of the cost of the following method of equity capital is computed by dividing the dividend by market price per share or net proceeds per share?
   (a) Price Earning Method
   (b) Adjusted Price Method
   (c) Adjusted Dividend Method
   (d) Dividend Yield Method
2. Which of the following is the correct formula to calculate the cost of equity under the dividend yield method?
   (a) $K_e = \frac{D}{p_0}$
   (b) $K_e = R_f + \beta\ (R_m - R_f)$
   (c) $K_e = \frac{D_1}{NP} + g$
   (d) $K_e = \frac{EPS}{P_0}$
3. _______is the rate of return associated with the best investment opportunity for the firm and its shareholders that will be forgone if the projects presently under consideration by the firm were accepted.
   (a) Explicit Cost
   (b) Future Cost
   (c) Implicit Cost
   (d) Specific Cost
4. Which of the following model/ method makes use of Beta (3) in the calculation of the cost of equity?
   (a) Risk-Adjusted Discount Model
   (b) Capital Assets Pricing Method
   (c) MM Model
   (d) Price Earning Method
5. Marginal cost________
   (a) is the weighted average cost of new finance raised by the company.
   (b) is the additional cost of capital when the company goes for further raising of finance.
   (c) is the cost of raising an additional rupee of capital.
   (d) All of the above
6. The cost of equity share or debt is called the specific cost of capital. When specific costs are combined, then we arrive at___________
   (a) Maximum rate of return
   (b) Internal rate of return
   (c) Overall cost of capital
   (d) Accounting rate of return
7. If we deduct 'risk-free return' from 'market return' and multiply it with 'beta factor' and again add 'risk-free return', the resultant figure will be -
   (a) Nil
   (b) Risk premium
   (c) Cost of equity
   (d) WACCof the firm
8. For each component of capital, a required rate of return is considered as:
   (a) Component cost
   (b) Evaluating cost
   (c) Asset cost
   (d) Asset depreciation value

9. _______ is the rate that the firm pays to procure financing.

(a) Average Cost of Capital | (c) Economic Cost
(b) Combine Cost | (d) Explicit Cost

10. Which of the following method of cost of equity is similar to the dividend price approach?

(a) Discounted cash flow (DCF) method | (c) Price earning method
(b) Capital asset pricing model | (d) After-tax equity method

11. How you will calculate expected dividend i.e. dividend at the end of year one?

(a) $D_1 = [D_o(l + g)]$ | (c) $D_1 = [D_0 \times (l-g)]$
(b) $D_1=[D_0(1-t)]$ | (d) $D_1=[D_0+(1-g)](1-t)$

12. n WACC, rising in interest rate leads to -

(a) Increase in cost of debt | (c) Decrease in cost of debt
(b) Increase the capital structure | (d) Decrease the capital structure

13. In weighted average cost of capital, capital components are funds that are usually offered by:

(a) Stock market | (c) Capitalist
(b) Investors | (d) Exchange index

14. The overall cost of capital is called as -

(a) Composite cost of capital | (c) Both (A) and (B)
(b) Combined cost of capital | (d) Neither (A) nor (B)

15. Premium which is considered as the difference of expected return on common stock and the current yield on Treasury bonds is called -

(a) Past risk premium | (c) Current risk premium
(b) Expected premium | (d) Beta premium

16. Which of the following figure is irrelevant while calculating the cost of redeemable preference shares?

(a) Flotation cost | (c) EPS
(b) Discount | (d) Net proceeds

17. An interest rate that is paid by a firm as soon as it issues debt is classified as pre-tax -

(a) Term structure | (c) Risk premium
(b) Market premium | (d) Cost of debt

18. Which of the following is a controllable factor affecting the cost of capital of the firm?

(a) Dividend policy | (c) Tax rates
(b) Level of interest rates | (d) All of the above

19. Which of the following is an uncontrollable factor affecting the cost of capital of the firm?

(a) Investment Policy | (c) Debt service charges
(b) Capital Structure Policy | (d) None of the above

20. Type of cost which is used to raise common equity by reinvesting internal earnings is classified as

(a) Cost of common equity
(b) Cost of mortgage
(c) Cost of stocks
(d) Cost of reserve assets

21. Which of the following factor affects the determination of the cost of capital of the firm?
(a) General economic conditions
(b) Market conditions
(c) Operating and financing decisions
(d) All of the above

22. The cost of equity which is raised by reinvesting earnings internally must be higher than the -
(a) Cost of the initial offering
(b) Cost of new common equity
(c) Cost of preferred equity
(d) Cost of floatation

23. During the planning period, marginal cost to raise new debt is classified as_______
(a) Debt cost
(b) Borrowing cost
(c) Relevant cost
(d) Embedded cost

24. The after-tax cost of debentures not redeemable during the lifetime of the company is -
(a) [Interest ÷ Net proceeds] × (1 -1)
(b) Interest × (l -1) ÷ Net proceeds
(c) Interest × (l + t) ÷ Net proceeds
(d) [Interest ÷ Net proceeds] × (1 + t)

25. The risk-free rate is subtracted from the expected market return is considered as:
(a) Country risk
(b) Diversifiable risk
(c) Equity risk premium
(d) Market risk premium

26. A firm's overall cost of capital:
(a) varies inversely with its cost of debt.
(b) is unaffected by changes in the tax rate.
(c) is another term for firm's internal rate of return.
(d) is required return on the total assets of a firm.

27. Key sources of value (earning an excess return) for a company can be attributed primarily to
(a) competitive advantage and access to capital
(b) quality management and industry attractiveness
(c) access to capital and quality management
(d) industry attractiveness and competitive advantage

28. Which of the following is the correct formula to calculate the cost of redeemable debentures?
(a) $K_e = \dfrac{\left[1(1-t)-\left(\dfrac{Rv-Sv}{N}\right)\right]}{\left(\dfrac{R_V+S_V}{2}\right)}$

(b) $K_d = \dfrac{\left[1(1-t)+\left(\dfrac{Rv+Sv}{N}\right)\right]}{\left(\dfrac{R_V-S_V}{2}\right)}$

(c) $K_d = \dfrac{\left[1(1-t)+\left(\dfrac{Rv-Sv}{N}\right)\right]}{\left(\dfrac{R_V-S_V}{2}\right)}$

(d) $$K_d = \frac{\left[1(1-t)+\left(\frac{Rv-Sv}{N}\right)\right]}{\left(\frac{R_V+S_V}{2}\right)}$$

29. The weighted average cost of capital (Ko) results from a weighted average of the firm's debt and equity capital costs. At a debt ratio of zero, the firm is 100% equity financed. As debt is substituted for equity and as the debt ratio increases, the -
  (a) Ko declines because the after-tax debt cost is less than the equity cost (Kd < Ke).
  (b) Ko increases because the after-tax debt cost is less than the equity cost (Kd < Ke).
  (c) Ko do not show any change and tend to remain the same.
  (d) None of the above

30. Overall WACC is composed of a weighted average of
  (a) the cost of common equity and the cost of debt
  (b) the cost of common equity and the cost of preferred stock
  (c) the cost of preferred stock and the cost of debt
  (d) the cost of common equity, the cost of preferred stock, and the cost of debt

31. While calculating the WACC, the cost of each component of the capital is weighted -
  (a) In the ratio of 1:2:3:4
  (b) by the relative proportion of that type of funds in the capital structure.
  (c) by the relative proportion of that type of funds to total assets in the company
  (d) Both (A) and (C)

32. Which of the following formula you will use while calculating the value of the firm?
  (a) NOPAT÷ Ko (c) NOPAT ÷ KO (l-t)
  (b) NOPAT × K (d) None of the above

33. For which of the following costs is it generally necessary to apply a tax adjustment to a yield measure?
  (a) Cost of debt (c) Cost of common equity
  (b) Cost of preferred stock (d) Cost of retained earnings

34. The cost of preference share capital is calculated -
  (a) By dividing the fixed dividend per share by the price per preference share and then adding risk premium.
  (b) By dividing the fixed dividend per share by the price per preference share and then adding growth rate.
  (c) By dividing the fixed dividend per share by the price per preference share.
  (d) By dividing the fixed dividend per share by the book value per preference share.

35. Which of the following is not a recognized approach for determining the cost of equity?
  (a) Dividend discount model approach
  (b) Before-tax cost of preferred stock plus risk premium approach
  (c) Capital-asset pricing model approach

	(d)	Before-tax cost of debt plus risk premium approach					
36.	CAPM describes the between risk and returns for securities.						
	(a)	Linear relationship		(c)	No relationship		
	(b)	Hypothetical relationship		(d)	Diagonal relationship.		
37.	Chetna Fashions is expected to pay an annual dividend of ₹ 0.80 a share next year. The market price of the stock is ₹ 22.40 and the growth rate is 5%. What is the firm's cost of equity?						
	(a)	7.58 percent		(c)	8.24 percent		
	(b)	7.91 percent		(d)	8.57 percent		
38.	Ramola Ltd. report its NOPAT ₹ 25,00,000. Its capital employed and economic value added is ₹ 60,00,000 & ₹ 19,00,000 respectively. What is the overall cost of capital of Ramola Ltd?						
	(a)	10.9%	(b) 11%	(c)	10%	(d)	9.8%
39.	Raelian Ltd. has 1096 Preference Share Capital of ₹ 4,50,000. Face value is ₹ 10. Issue price of preference share is ₹ 100 per share; flotation cost ₹ 2 per share. What is the cost of preference shares to Raman Ltd.?						
	(a)	10.20%	(b) 9.10%	(c)	12.50%	(d)	11.22%
40.	Debt as a percentage of the total capital of Kinara Ltd. is 20%. Its cost of equity is 16% and the pretax cost of debt is 12%. The tax rate is 50%. What is the overall cost of capital of Kinara Ltd.?						
	(a)	16%	(b) 14%	(c)	15%	(d)	16.6%
41.	Debt as a percentage of the total capital of Tiger Ltd. is 60%. Its cost of equity is 24% and the pre-tax cost of debt is 20%. The tax rate is 50%. What is the overall cost of capital of Tiger Ltd.?						
	(a)	14.6%		(c)	17.6%		
	(b)	13.6%		(d)	15.6%		
42.	The preferred stock of ISO Ltd. pays an annual dividend of ₹ 6.50 a share and sells for ₹ 48 a share. What is 150's cost of preferred stock?						
	(a)	9.19%	(b) 7.38%	(c)	13.54%	(d)	9.46%
43.	Nikon Enterprises just paid an annual dividend of ₹ 1.56 per share. This dividend is expected to increase by 3 percent annually. Currently, the firm has a beta of 1.13 and a stock price of ₹ 28 a share. The risk-free rate is 3 percent and the market rate of return is 10.5 percent. What is your best estimate of Nikon's cost of equity?						
	(a)	8.74 per cent		(c)	9.72 per cent		
	(b)	11.48 per cent		(d)	10.11 percent		
44.	Jackson Ltd. has 12,000 bonds outstanding at a quoted price of 98% of face value. The bonds mature in 11 years and carry a 9% annual coupon. What is your best estimate of Jackson's after-tax cost of debt if the applicable tax rate is 35%?						
	(a)	6.03%	(b) 5.77%	(c)	8.33%	(d)	7.04%

45. Mona Industries has a capital structure of 55% common stock, 10% preferred stock, and 45% debt. The firm has a 60% dividend payout ratio, a beta of 0.89, and a tax rate of 38%. Given this, which one of the following statements is correct?
   (a) The after-tax cost of debt will be greater than the current yield-to-maturity on the firm's bonds.
   (b) The firm's cost of preferred is most likely less than the firm's actual cost of debt.
   (c) The firm's cost of equity is unaffected by a change in the firm's tax rate.
   (d) The cost of equity can only be estimated using the SML approach.

46. Baba Ltd. has a cost of equity of 12%, a pre-tax cost of debt of 7%, and a tax rate of 35%. What is the firm's weighted average cost of capital if the debt-equity ratio is 0.60?
   (a) 9.21% (b) 10.01% (c) 10.13% (d) 11.11%

47. JKL Ltd. has ₹ 10 equity shares amounting to ₹ 15 Crore. The current market price per equity share is ₹ 60. The prevailing default risk-free interest rate on 10-year GOI Treasury bonds is 5.5%. The average market risk premium is 8%. The beta of the company is 1.1875. K =?
   (a) 15% (b) 11% (c) 12% (d) 13%

48. PWA Ltd. has ₹ 1,000, 9.5% debentures amounting to ₹ 1,500 Million. The debentures of PWA Ltd. are redeemable after 3 years and are quoting at ₹ 981.05 per debenture. The beta of the company is 1.1785. The applicable income tax rate for the company is 3596. Kd =?
   (a) .59% (b) 6.87% (c) 7.86% (d) 8.67%

49. G Ltd. has 10,000 shares of common stock outstanding at a price per share of ₹ 46 and a rate of return of 14%. The Company has 5,000 shares of 7% preferred stock outstanding at a price of ₹ 58 a share. The outstanding debt has a total face value of ₹ 2,00,000 and a market price equal to 98% of face value. Yield-to-maturity (YTM) on the debt is 8.0396. What is the firm's weighted average cost of capital?
   (a) 10.62% (b) 12.65% (c) 8.62% (d) 9.99%

50. Black & White Ltd. has a cost of equity of 11% and a pre-tax cost of debt of 8.5%. The firm's target weighted average cost of capital is 996 and its tax rate is 35%. What is the firm's target debt-equity ratio?
   (a) 0.6203 (b) 0.5756 (c) 0.5572 (d) 0.5113

ANSWERS

1	2	3	4	5	6	7	8	9	10	11	12	13
(d)	(a)	(c)	(b)	(d)	(c)	(c)	(a)	(d)	(c)	(a)	(a)	(b)
14	15	16	17	18	19	20	21	22	23	24	25	26
(c)	(c)	(c)	(d)	(a)	(d)	(a)	(d)	(b)	(c)	(b)	(c)	(d)
27	28	29	30	31	32	33	34	35	36	37	38	39
(d)	(d)	(a)	(d)	(b)	(a)	(a)	(c)	(b)	(a)	(d)	(c)	(a)
40	41	42	43	44	45	46	47	48	49	50		
(b)	(d)	(c)	(d)	(a)	(c)	(a)	(a)	(b)	(a)	(b)		

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CHAPTER-6
SOURCES OF FINANCE

1. Which of the following is an internal source of funds for a company?
   (a) Bank loan
   (b) Issuing bonds
   (c) Retained earnings
   (d) Venture capital
2. External sources of funds are typically obtained from:
   (a) Equity shareholders
   (b) Long-term loans
   (c) Both a and b
   (d) Only banks
3. Which source of funds is considered the most expensive due to interest payments?
   (a) Equity financing
   (b) Debt financing
   (c) Retained earnings
   (d) Angel investors
4. A company can raise funds by issuing shares in the stock market. This process is known as:
   (a) IPO (Initial Public Offering)
   (b) M&A (Mergers and Acquisitions)
   (c) ROI (Return on Investment)
   (d) DPO (Direct Public Offering)
5. Which source of funds is associated with the highest level of ownership dilution for existing shareholders?
   (a) Bank loans
   (b) Private equity
   (c) Venture capital
   (d) Retained earnings
6. When a company borrows money and promises to repay the principal along with interest, it is obtaining funds through:
   (a) Equity financing
   (b) Debt financing
   (c) Venture capital
   (d) Internal accruals
7. What type of financing involves selling a portion of future revenue to investors in exchange for immediate funds?
   (a) Mezzanine financing
   (b) Factoring
   (c) Microloans
   (d) Invoice discounting
8. Which of the following is not a source of short-term funds for a business?
   (a) Trade credit
   (b) Commercial paper
   (c) Bank overdraft
   (d) Venture capital
9. Which of the following is a non-current liability that represents the obligation to repay borrowed funds?
   (a) Accounts payable
   (b) Accrued expenses
   (c) Long-term debt
   (d) Prepaid expenses
10. Companies can raise funds by selling their accounts receivable to a third party at a discount. This process is called:
   (a) Equity financing
   (b) Debt factoring
   (c) Treasury stock
   (d) Seed funding

11. The process of pooling funds from multiple investors to finance a project or business is known as:
    - (a) Crowd funding
    - (b) Leverage buyout
    - (c) Asset securitization
    - (d) Angel investing

12. Which of the following is a common source of funds for startups and early-stage companies?
    - (a) Initial public offering (IPO)
    - (b) Private equity
    - (c) Trade credit
    - (d) Venture, capital

13. When a company issues new shares to its existing shareholders in proportion to their current holdings, it is known as:
    - (a) Rights issue
    - (b) Follow-on offering
    - (c) Convertible bond
    - (d) Initial public offering (IPO)

14. What type of financing involves obtaining funds from family and friends to support a business venture?
    - (a) Seed funding
    - (b) Mezzanine financing
    - (c) Bridge loan
    - (d) Trade credit

15. Which of the following is an example of an external source of long-term funds?
    - (a) Trade credit
    - (b) Bank overdraft
    - (c) Commercial paper
    - (d) Venture capital

16. What source of funds involves the issuance of a certificate representing a sum of money lent to a government or company?
    - (a) Treasury bill
    - (b) Corporate bond
    - (c) Equity share
    - (d) Invoice discounting

17. Which source of funds does not require repayment since it represents the owner's investment in the business?
    - (a) Long-term debt
    - (b) Equity financing
    - (c) Trade credit
    - (d) Factoring

18. Which of the following is a government-backed source of funds designed to support small businesses?
    - (a) Angel investing
    - (b) Microloans
    - (c) Mezzanine financing
    - (d) Bridge loan

19. What type of financing involves a financial institution purchasing a company's account receivables at a discount?
    - (a) Factoring
    - (b) Trade credit
    - (c) Micro loans
    - (d) Crowd funding

20. Which source of funds provides temporary financial assistance to businesses to meet short-term cash flow needs?
    - (a) Microloans
    - (b) Trade credit
    - (c) Bridge loan
    - (d) Equity financing

21. When a company raises funds through a private placement to a select group of investors, it is called:

(a) Initial public offering (IPO)
(c) Private equity
(b) Follow-on offering
(d) Seed funding

22. Which of the following is a source of funds that allows a company to borrow against its outstanding invoices?

(a) Venture capital
(c) Invoice discounting
(b) Mezzanine financing
(d) Trade credit

23. A company can raise funds by pledging its assets as collateral for a loan. This process is known as:

(a) Factoring
(c) Secured lending
(b) Leverage buyout
(d) Treasury stock

ANSWERS

1	2	3	4	5	6	7	8	9	10	11	12	13	14
(c)	(c)	(b)	(a)	(b)	(b)	(a)	(d)	(c)	(b)	(a)	(d)	(a)	(a)
15	16	17	18	19	20	21	22	23					
(a)	(b)	(b)	(b)	(a)	(c)	(c)	(c)	(c)					

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CHAPTER-7

CAPITAL BUDGETING

1. Capital budgeting is the process_
   (a) This helps to make the master bud-get of the organization.
   (b) By which the firm decides how much capital to invest in business
   (c) By which the firm decides which long-term investments to make.
   (d) Undertaken to analyze how to make available various finance to the business.
2. The values of the future net incomes discounted by the cost of capital are called -
   (a) Average capital cost
   (c) Net capital cost
   (b) Discounted capital cost
   (d) Net present values
3. The decision to accept or reject a capital budgeting project depends on -
   (a) An analysis of the cash flows generated by the project
   (b) Cost of capital that is invested in business/project.
   (c) Both (A) and (B)
   (d) Neither (A) nor (B)
4. Internal Rate of Return (IRR) criterion for project acceptance, under theoretically infinite funds, is: Accept all projects which have -
   (a) IRR equal to the cost of capital
   (b) IRR greater than the cost of capital
   (c) IRR less than the cost of capital
   (d) None of the above
5. Where capital availability is unlimited and the projects are riot mutually exclusive, for the same cost of capital, following criterion is used?
   (a) Net present value
   (c) Profitability Index
   (b) Internal Rate of Return
   (d) Any of the above
6. __________is the discount rate that should be used in capital budgeting.
   (a) Cost of capital (Ko)
   (c) Risk premium (Rm)
   (b) Risk-free rate (Rf)
   (d) Beta rate (P)
7. Which of the following represents the amount of time that it takes for a capital budgeting project to recover its initial cost?
   (a) Maturity period
   (c) Redemption period
   (b) Payback period
   (d) Investment period
8. Incorporating flotation costs into the analysis of a project will:
   (a) Have no effect on the present value of the project.
   (b) Increase the NPV of the project.
   (c) Increase the project's rate of return.
   (d) Increase the initial cash outflow of the project.

9. A project is accepted when:
   (a) Net present value is greater than zero
   (b) Internal Rate of Return will be greater than the cost of capital
   (c) Profitability index will be greater than unity
   (d) Any of the above

10. When choosing among mutually exclusive projects, the project with -
   (a) Longest payback is preferred
   (b) Higher NPV get selected
   (c) Quickest payback is preferred
   (d) Lower cost of capital will be selected

11. With limited finance and a number of project proposals at hand, select that package of projects which has:
   (a) The maximum net present value
   (b) IRR is greater than cost of capital
   (c) Profitability index is greater them unity
   (d) Any of the above

12. Profitability Index of 0.92 for a project means that
   (a) The project's costs (cash outlay) are (is) less than the present value of the project's benefits.
   (b) The project's NPV is greater than zero.
   (c) The projects NPV is greater than 1.
   (d) The project returns 92 cents in present value for each rupee invested.

13. The shorter the payback period -
   (a) The riskier is the project.
   (c) Less will the NPV of the project.
   (b) The less risky is the project.
   (d) More will the NPV of the project

14. Ranking projects according to their ability to repay quickly may be useful to firms:
   (a) When experiencing liquidity constraints.
   (b) When careful control over cash is required.
   (c) To indicate the prospective investors specifying when their funds are likely to be repaid.
   (d) All of the above

15. Capital budgeting decisions are analyzed with help of a weighted average and for this purpose -
   (a) Component cost is used
   (c) Cost of capital is used
   (b) Common stock value is used
   (d) Asset valuation is used

16. Which of the following is a demerit of the payback period?
   (a) It is difficult to calculate as well as understand it as compared to the accounting rate of return method.
   (b) This method disregards the initial investment involved.
   (c) It fails to take into account the timing of returns and the cost of capital.
   (d) None of the above

17. A project whose acceptance does not prevent or require the acceptance of one or more alternative projects is referred to as

(a) Mutually exclusive project (c) Dependent project

(b) Independent project (d) Contingent project

18. When operating under a single-period capital-rationing constraint, you may first want to try selecting projects by descending order of their________in order to give yourself the best chance to select the mix of projects that adds most to the firm value.

(a) Profitability Index (PI) (c) Internal Rate of Return (IRR)

(b) Net Present Value (NPV) (d) Payback Period (PBP)

19. Which of the following is correct formula to calculate payback period reciprocal?

(a) (1/payback period) × 100 (c) (100/payback period) x β

(b) (100/payback period) × 10 (d) [(1/payback period) × β]÷ 100

20. How ARR is calculated?

(a) (Average PAT/Initial Investment) x 100 (b) (Average NPV/Investment) x 100

(c) (Average PAT/Initial Investment) x 100 (d) (Initial Investment/Average PAT) x 100

21. Some projects that a firm accepts will undoubtedly result in zero or negative returns. In light of this fact, it is best if the firm:

(a) Adjusts its hurdle rate (ie. cost of capital) upward to compensate for this fact.

(b) Adjusts its hurdle rate (ie. cost of capital) downward to compensate for this fact

(c) Does not adjust its hurdle rate up or down regardless of this fact

(d) Raises its prices to compensate for this fact.

22. If we add depreciation and other non cash expenses in profit after tax, the resulting figure is -

(a) Profit available for equity shareholder

(b) CFAT (c) Net cash flow (d) Free cash flow

23. Which of the following is demerit of accounting rate of return (ARR) method?

(a) It does not take into accounting time value of money.

(b) It fails to measure properly the rates of return on a project even if the cash flows are even over the project life.

(c) It is biased against short-term projects in the same way that payback is biased against longer term ones. (d) All of the above

24. NPV = ?

(a) Project's cash inflows - Project's cash outflows.

(b) Project's cash inflows after tax minus the project's cash outflows.

(c) Present value of the project's cash inflows minus the present value of the project's cash outflows.

(d) Present value of the project's cash inflows minus the present value of the project's cash outflows in initial year ignoring the present value of cash flows in subsequent years.

25. .... is an investment appraisal technique calculated by dividing the present value of future cash flows of a project by the initial investment required for the project.
    (a) Indexed cost method
    (b) Profitability index
    (c) Cost benefit ratio
    (d) Both (B) and (C)

26. Accept a project if the profitability index is:
    (a) less than 1
    (b) positive
    (c) greater than 1
    (d) negative

27. Profitability index is actually a modification of the -
    (a) Payback period method
    (b) IRR Method
    (c) Net present value method
    (d) Risk premium method

28. Which of the following capital budgeting techniques takes into account the incremental accounting income rather than cash flows?
    (a) Net present value
    (b) Internal rate of return
    (c) Accounting/simple rate of return
    (d) Cash payback period

29. The IRR decision rule specifies that all independent projects -
    (a) with positive NPV should be selected.
    (b) with an IRR greater than the cost of capital should be accepted.
    (c) having IRR greater economic value added should be selected.
    (d) with an IRR greater than the cost of capital should be accepted though it have negative NPV.

30. Which of the following techniques does not take into account the time value of money?
    (a) Internal rate of return method
    (b) Simple cash payback method
    (c) Net present value method
    (d) Discounted cash payback method

31. If you are considering two projects namely. Project X & Project Y; NPV of X is higher than Y but IRR of Y is greater than X then you will select -
    (a) Project Y
    (b) Project X
    (c) Some other project
    (d) None of the above

32. The current worth of a sum of money to be received at a future date is called:
    (a) Real value
    (b) Future value
    (c) Present value
    (d) Salvage value

33. The difference between the present value of cash inflows and the present value of cash outflows associated with a project is known as:
    (a) Net present value of the project
    (b) Net future value of the project
    (c) Net historical value of the project
    (d) Net salvage value of the project

34. Capital rationing refers to a situation -
    (a) where a company cannot undertake projects as the cost of capital is less than required rate of return on projects.
    (b) where company is confused in selection of more than one projects.

(c) where a company cannot undertake all positive NPV projects, it has identified because of shortage of capital.

(d) where cost of the projects is equal to present value leading NPV to zero.

35. If present value of cash outflow is equal to present value of cash inflow, the net present value will be:

(a) Positive (b) Negative (c) Zero (d) Infinite

36. Generally, a project is considered acceptable if its net present value is:

(a) Negative or zero (c) Positive or zero

(b) Negative or positive (d) Negative

37. An increase in the discount rate will:

(a) Reduce the present value of future cash flows.

(b) Increase the present value of future cash flows.

(c) Have no effect on net present value.

(d) Compensate for reduced risk.

38. Using profitability index, the preference rule for ranking projects is:

(a) the lower the profitability index, the more desirable the project.

(b) the higher the profitability Index, the more desirable the project.

(c) the lower the sunk cost, the more desirable the project.

(d) the higher the sunk cost, the more desirable the project.

39. A project whose cash flows are more than capital invested for rate of return then net present value will be

(a) Positive (c) Negative

(b) Independent (d) Zero

40. In mutually exclusive projects, project which is selected for comparison with others must have -

(a) Higher net present value (c) Zero net present value

(b) Lower net present value (d) All of the above

41. Relationship between Economic Value Added (EVA) and Net Present Value (NPV) is considered as

(a) Valued relationship (c) Direct relationship

(b) Economic relationship (d) Inverse relationship

42. In capital budgeting, positive net present value results in -

(a) Negative economic value added (c) Zero economic value added

(b) Positive economic value added (d) Percent economic value added

43. Cash inflows are revenues of project and are represented by -

(a) Hurdle number (c) Negative numbers

(b) Relative number (d) Positive numbers

44. The process of planning expenditures that will influence the operation of a firm over a number of years is called -

(a) Investment
(b) Capital budgeting
(c) Net present valuation
(d) Dividend valuation

45. Which of the following is an example of a capital investment project?

(a) Replacement of worn-out equipment
(b) Expansion of production facilities
(c) Development of employee training programs
(d) All of the above are examples of capital investment projects.

46. The term mutually exclusive investments mean:

(a) Choose only the best investments
(b) Selection of one investment precludes the selection of an alternative
(c) Elite investment opportunities will get chosen.
(d) There are no investment options available.

47. Which method provides more confidence, the payback method or the net present value method?

(a) Payback because it provides a good timetable.
(b) Payback because it tells you when you break even.
(c) Net present value because it considers all inflows and outflows and the time value of money.
(d) Net present value because it does not need to use cost of capital.

48. To estimate an unknown number that lies between two known numbers is knows as -

(a) Capital rationing
(b) Capital budgeting
(c) Interpolation
(d) Amortization

49. Capital budgeting is the process of identifying analyzing and selecting investments project whose returns are expected to extend beyond -

(a) 3 years
(b) 2 years
(c) 1 year
(d) Months

50. Criterion for IRR (Internal Rate of Return)?

(a) Accept, if IRR > Cost of capital
(b) Accept, if IRR < Cost of capital
(c) Accept, if IRR = Cost of capital
(d) None of the above

51. The categories of cash flows includes -

(a) Net initial investment
(b) Cash flow from operations after paying taxes
(c) Cash flow from terminal disposal after paying taxes
(d) All of the above

52. The concept which explains that a money received in present time is more valuable than money received in future is classified as -

(a) Lead value of money
(b) Storage value of money
(c) Time value of money
(d) Cash value of money

53. The rate of return to cover risk of investment and decrease in purchasing power as a result of inflation is classified as -

(a) Nominal rate of return
(b) Accrual accounting rate of return
(c) Real rate of return
(d) Required rate of return

54. The payback period is multiplied to constant increase in yearly future cash flows to calculate

(a) Cash value of money
(b) Net initial investment
(c) Net future value
(d) Time value of money

55. Why are projects with negative net present values (NPVs) unacceptable to a firm?

(a) Returns lower than the cost of capital result in firm failure.
(b) Returns with negative NPVs cause an equal profit ratio.
(c) Returns with negative NPVs are acceptable to a firm.
(d) Returns lower than the cost of capital result in higher profit ratios

56. What are the two drawbacks associated with the payback period?

(a) The time value of money is ignored. It ignores cash flows beyond the payback period.
(b) The time value of money is considered. It ignores cash flows beyond the payback period.
(c) The time value of money is considered. It includes cash flows beyond the payback period.
(d) The time value of money is ignored. It includes cash flows beyond the payback period.

57. Which of the following cash flows should not be considered relevant in calculating project cash flows?

(a) Opportunity costs
(b) Any effects caused by cannibalization
(c) Investments in net working capital as a result of making the investment
(d) Sunk costs

58. Which of the following is not used in capital budgeting?

(a) Time value of money
(b) Sensitivity analysis
(c) Net assets method
(d) Cashflows

59. Which of the following is not incorporated in Capital Budgeting?

(a) Tax Effect
(b) Time Value of Money
(c) Required Rate of Return
(d) Rate of Cash Discount

60. Which of the following is not applied in capital budgeting?

(a) Cash flows be calculated in incremental terms
(b) All costs and benefits are measured on cash basis
(c) All accrued costs and revenues be incorporated
(d) All benefits are measured on after tax basis

61. A proposal is not a capital budgeting proposal if it:

(a) is related to Fixed Assets
(b) brings long-term benefits
(c) brings short-term benefits only
(d) has very large investment

ANSWERS

1	2	3	4	5	6	7	8	9	10	11	12	13	14
(c)	(d)	(c)	(b)	(d)	(a)	(b)	(d)	(d)	(c)	(a)	(d)	(b)	(d)
15	16	17	18	19	20	21	22	23	24	25	26	27	28
(c)	(c)	(b)	(a)	(a)	(a)	(c)	(b)	(d)	(c)	(d)	(b)	(c)	(c)
29	30	31	32	33	34	35	36	37	38	39	40	41	42
(b)	(b)	(b)	(c)	(a)	(c)	(c)	(c)	(a)	(b)	(a)	(a)	(c)	(b)
43	44	45	46	47	48	49	50	51	52	53	54	55	56
(d)	(b)	(d)	(b)	(c)	(c)	(c)	(a)	(d)	(c)	(a)	(b)	(a)	(a)
57	58	59	60	61									
(d)	(c)	(d)	(a)	(c)									

CHAPTER-8
DIVIDEND DECISIONS

1. Capital budgeting is the process____
   (a) This helps to make the master bud-get of the organization.
   (b) By which the firm decides how much capital to invest in business
   (c) By which the firm decides which long-term investments to make.
   (d) Undertaken to analyze how to make available various finance to the business.
2. The values of the future net incomes discounted by the cost of capital are called -
   (a) Average capital cost
   (b) Discounted capital cost
   (c) Net capital cost
   (d) Net present values
3. Internal Rate of Return (IRR) criterion for project acceptance, under theoretically infinite funds, is: Accept all projects which have -
   (a) IRR equal to the cost of capital
   (b) IRR greater than the cost of capital
   (c) IRR less than the cost of capital
   (d) None of the above
4. _________ is a project whose cash flows are not affected by the accept/reject decision for other projects.
   (a) Mutually exclusive project
   (b) Independent project
   (c) Low-cost project
   (d) Risk-free project
5. Where capital availability is unlimited and the projects are riot mutually exclusive, for the same cost of capital, following criterion is used?
   (a) Net present value
   (b) Internal Rate of Return
   (c) Profitability Index
   (d) Any of the above
6. __________is the discount rate that should be used in capital budgeting.
   (a) Cost of capital (Ko)
   (b) Risk-free rate (Rf)
   (c) Risk premium (Rm)
   (d) Beta rate (|3)
7. Which of the following represents the amount of time that it takes for a capital budgeting project to recover its initial cost?
   (a) Maturity period
   (b) Payback period
   (c) Redemption period
   (d) Investment period
8. Incorporating flotation costs into the analysis of a project will:
   (a) Have no effect on the present value of the project.
   (b) Increase the NPV of the project.
   (c) Increase the project's rate of return.
   (d) Increase the initial cash outflow of the project.
9. A project is accepted when:
   (a) Net present value is greater than zero
   (b) Internal Rate of Return will be greater than the cost of capital

	(c)	Profitability index will be greater than unity		
	(d)	Any of the above		
10.	When choosing among mutually exclusive projects, the project with -			
	(a)	Longest payback is preferred	(c)	Quickest payback is preferred
	(b)	Higher NPV get selected	(d)	Lower cost of capital will be selected
11.	With limited finance and a number of project proposals at hand, select that package of projects which has:			
	(a)	The maximum net present value		
	(b)	Internal rate of return is greater than the cost of capital		
	(c)	Profitability index is greater them unity		
	(d)	Any of the above		
12.	A Profitability Index (PI) of 0.92 for a project means that			
	(a)	The project's costs (cash outlay) are (is) less than the present value of the project's benefits.		
	(b)	The project's NPV is greater than zero.		
	(c)	The project's NPV is greater than 1.		
	(d)	The project returns 92 cents in present value for each rupee invested.		
13.	The shorter the payback period -			
	(a)	The riskier is the project.	(c)	Less will the NPV of the project.
	(b)	The less risky is the project.	(d)	More will the NPV of the project
14.	Which of the following statements is incorrect regarding a normal project?			
	(a)	the NPV of a project is greater than 0, then its PI will exceed 1.		
	(b)	If the IRR of a project is 8%, its NPV, using a discount rate, K0, greater than 8%, will be less than 0.		
	(c)	If the PI of a project equals 0, then the project's initial cash outflow equals the PV of its cash flows.		
	(d)	If the IRR of a project is greater than the discount rate, K0, then its PI will be greater than 1.		
15.	Ranking projects according to their ability to repay quickly may be useful to firms:			
	(a)	When experiencing liquidity constraints.		
	(b)	When careful control over cash is required.		
	(c)	To indicate the prospective investors specifying when their funds are likely to be repaid.		
	(d)	All of the above		
16.	Capital budgeting decisions are analyzed with help of a weighted average and for this purpose			
	(a)	Component cost is used	(c)	Cost of capital is used
	(b)	Common stock value is used	(d)	Asset valuation is used

17. What is the difference between economic profit and accounting profit?
   (a) Economic profit includes a charge for all providers of capital while accounting profit includes only a charge for debt.
   (b) Economic profit covers the profit over the life of the firm, while accounting profit only covers the most recent accounting period.
   (c) Accounting profit is based on currently accepted accounting rules while economic profit is based on cash flows.
   (d) All of the above are correct.

18. Which of the following is a demerit of the payback period?
   (a) It is difficult to calculate as well as understand it as compared to the accounting rate of return method.
   (b) This method disregards the initial investment involved.
   (c) It fails to take into account the timing of returns and the cost of capital.
   (d) None of the above

19. A project whose acceptance does not prevent or require the acceptance of one or more alternative projects is referred to as
   (a) Mutually exclusive project
   (b) Independent project
   (c) Dependent project
   (d) Contingent project

20. Which of the following is a demerit of the payback period?
   (a) It does not indicate whether an investment should be accepted or rejected unless the payback period is compared with an arbitrary managerial target.
   (b) The method ignores cash gene-ration beyond the payback period and this can be seen as more as a measure of liquidity than of profitability.
   (c) This method makes no attempt to measure a percentage return on the capital invested and is often used in conjunction with other methods.
   (d) All of the above

21. When operating under a single-period capital-rationing constraint, you may first want to try selecting projects by descending order of their _______in order to give yourself the best chance to select the mix of projects that adds most to the firm value.
   (a) Profitability Index (PI)
   (b) Net Present Value (NPV)
   (c) Internal Rate of Return (IRR)
   (d) Payback Period (PBP)

22. What is the idea behind project-specific required rates of return for a firm or division?
   (a) Different projects should have different required rates of return because they are not alike with respect to risk.
   (b) Each firm should have a different required rate of return because firms are not alike with respect to risk and have been created historically by projects taken that differ with regards to risk.
   (c) A division of the firm will always have a required rate of return different from the firm's overall weighted average cost of capital because the risk of the division always differs from that of the firm.

(d) All of the above

23. A single, overall cost of capital is often used to evaluate projects because:
   (a) it avoids the problem of computing the required rate of return for each investment proposal.
   (b) it is the only way to measure a firm's required return.
   (c) it acknowledges that most new investment projects have about the same degree of risk.
   (d) it acknowledges that most new investment projects offer about the same expected return.

24. A project whose acceptance precludes the acceptance of one or more alternative projects is referred to as.............
   (a) Mutually exclusive project
   (b) Independent project
   (c) Dependent project
   (d) Contingent project

25. How ARR is calculated?
   (a) (Average PAT/Initial Investment) × 100
   (b) (Average NPV/Investment) × 100
   (c) (Average PAT/Initial Investment) ÷ 100
   (d) (Initial Investment/Average PAT) × 100

26. Some projects that a firm accepts will undoubtedly result in zero or negative returns. In light of this fact, it is best if the firm:
   (a) Adjusts its hurdle rate (ie. cost of capital) upward to compensate for this fact.
   (b) Adjusts its hurdle rate (ie. cost of capital) downward to compensate for this fact
   (c) Does not adjust its hurdle rate up or down regardless of this fact
   (d) Raises its prices to compensate for this fact.

27. If we add depreciation and other non cash expenses in profit after tax, the resulting figure is
   (a) Profit available for equity shareholder
   (b) CFAT
   (c) Net cash flow
   (d) Free cash flow

28. Lotus Corporation is trying to determine how to assign discount rates to the various projects proposed by its numerous international divisions. The company should put the greatest emphasis on which one of the following when assigning the discount rates?
   (a) the geographic location where the project will be undertaken
   (b) the currency exchange rate that will apply to the project
   (c) the various types of risk associated with the project
   (d) the experience of the managers of the division which is proposing the project

29. Which of the following is demerit of accounting rate of return (ARR) method?
   (a) It does not take into accounting time value of money.
   (b) It fails to measure properly the rates of return on a project even if the cash flows are even over the project life.

	(c)	It is biased against short-term projects in the same way that payback is biased against longer term ones.		
	(d)	All of the above		
30.	NPV = ?			
	(a) Project's cash inflows minus the project's cash outflows.			
	(b) Project's cash inflows after tax minus the project's cash outflows.			
	(c)	Present value of the project's cash inflows minus the present value of the project's cash outflows.		
	(d)	Present value of the project's cash inflows minus the present value of the project's cash outflows in initial year ignoring the present value of cash flows in subsequent years.		
31.	.... is an investment appraisal technique calculated by dividing the present value of future . cash flows of a project by the initial investment required for the project.			
	(a)	Indexed cost method	(c)	Cost benefit ratio
	(b)	Profitability index	(d)	Both (B) and (C)
32.	Accept a project if the profitability index is:			
	(a)	less than 1	(c)	greater than 1
	(b)	positive	(d)	negative
33.	Profitability index is actually a modification of the			
	(a)	Payback period method	(c)	Net present value method
	(b)	IRR Method	(d)	Risk premium method
34.	.... of a capital budgeting project is the discount rate at which the Net Present Value (NPV) of a project equals zero.			
	(a)	External Rate of Return (ERR)	(c)	Price Cost Method (PCM)
	(b)	Risk Free Rate of Return (RFRR)	(d)	Internal Rate of Return (IRR)
35.	Which of the following capital budgeting techniques takes into account the incremental accounting income rather than cash flows?			
	(a)	Net present value	(c)	Accounting/simple rate of return
	(b)	Internal rate of return	(d)	Cash payback period
36.	The IRR decision rule specifies that all independent projects –			
	(a)	with positive NPV should be selected.		
	(b)	with an IRR greater than the cost of capital should be accepted.		
	(c)	having IRR greater economic value added should be selected.		
	(d)	with an IRR greater than the cost of capital should be accepted though it have negative NPV.		
37.	Which of the following techniques does not take into account the time value of money?			
	(a)	Internal rate of return method	(c)	Net present value method
	(b)	Simple cash payback method	(d)	Discounted cash payback method

38. If you are considering two projects namely. Project X & Project Y; NPV of the Project X is higher than Project Y but IRR of Project Y is greater than Project X then you will select -

(a) Project Y
(b) Project X
(c) Some other project
(d) None of the above

39. The current worth of a sum of money to be received at a future date is called:

(a) Real value
(b) Future value
(c) Present value
(d) Salvage value

40. The difference between the present value of cash inflows and the present value of cash outflows associated with a project is known as:

(a) Net present value of the project
(b) Net future value of the project
(c) Net historical value of the project
(d) Net salvage value of the project

41. Capital rationing refers to a situation -

(a) where a company cannot undertake projects as the cost of capital is less than required rate of return on projects.
(b) where company is confused in selection of more than one projects.
(c) where a company cannot undertake all positive NPV projects, it has identified because of shortage of capital.
(d) where cost of the projects is equal to present value leading NPV to zero.

42. If present value of cash outflow is equal to present value of cash inflow, the net present value will be:

(a) Positive
(b) Negative
(c) Zero
(d) Infinite

43. Generally, a project is considered acceptable if its net present value is:

(a) Negative or zero
(b) Negative or positive
(c) Positive or zero
(d) Negative

44. An increase in the discount rate will:

(a) Reduce the present value of future cash flows.
(b) Increase the present value of future cash flows.
(c) Have no effect on net present value.
(d) Compensate for reduced risk.

45. Using profitability index, the preference rule for ranking projects is:

(a) the lower the profitability index, the more desirable the project.
(b) the higher the profitability index, the more desirable the project.
(c) the lower the sunk cost, the more desirable the project.
(d) the higher the sunk cost, the more desirable the project.

46. A project whose cash flows are more than capital invested for rate of return then net present value will be

(a) Positive
(b) Independent
(c) Negative
(d) Zero

47. In mutually exclusive projects, project which is selected for comparison with others must have -

(a)	Higher net present value	(c)	Zero net present value
(b)	Lower net present value	(d)	All of the above

48. In capital budgeting, positive net present value results in -

(a)	Negative economic value added	(c)	Zero economic value added
(b)	Positive economic value added	(d)	Percent economic value added

49. Cash inflows are revenues of project and are represented by -

(a)	Hurdle number	(c)	Negative numbers
(b)	Relative number	(d)	Positive numbers

50. The process of planning expenditures that will influence the operation of a firm over a number of years is called -

(a)	Investment	(c)	Net present valuation
(b)	Capital budgeting	(d)	Dividend valuation

51. Which of the following is an example of a capital investment project?
   (a) Replacement of worn-out equipment
   (b) Expansion of production facilities
   (c) Development of employee training programs
   (d) All of the above are examples of capital investment projects.

52. The term mutually exclusive investments mean:
   (a) Choose only the best investments
   (b) Selection of one investment precludes the selection of an alternative
   (c) The elite investment opportunities will get chosen.
   (d) There are no investment options available.

53. Which method provides more confidence, the payback method or the net present value method?
   (a) Payback because it provides a good timetable.
   (b) Payback because it tells you when you break even.
   (c) Net present value because it considers all inflows and outflows and the time value of money.
   (d) Net present value because it does not need to use cost of capital.

54. To estimate an unknown number that lies between two known numbers is knows as -

(a)	Capital rationing	(c)	Interpolation
(b)	Capital budgeting	(d)	Amortization

55. Capital budgeting is the process of identifying analyzing and selecting investments project whose returns are expected to extend beyond -

(a)	3 years	(b)	2 years	(c)	1 year	(d)	Months

56.	Criterion for IRR (Internal Rate of Return)?			
	(a)	Accept, if IRR > Cost of capital	(c)	Accept, if IRR = Cost of capital
	(b)	Accept, if IRR < Cost of capital	(d)	None of the above
57.	The categories of cash flows includes -			
	(a)	Net initial investment		
	(b)	Cash flow from operations after paying taxes		
	(c)	Cash flow from terminal disposal after paying taxes		
	(d)	All of the above		
58.	The concept which explains that a money received in present time is more valuable than money received in future is classified as -			
	(a)	Lead value of money	(c)	Time value of money
	(b)	Storage value of money	(d)	Cash value of money
59.	The method which calculates the time to recoup initial investment of project in form of expected cash flows is classified as -			
	(a)	Net value cash flow method	(c)	Single cash flow method
	(b)	Payback method	(d)	Lean cash flows method
60.	he rate of return to cover risk of investment and decrease in purchasing power as a result of inflation is classified as -			
	(a)	Nominal rate of return	(c)	Real rate of return
	(b)	Accrual accounting rate of return	(d)	Required rate of return
61.	The payback period is multiplied to constant increase in yearly future cash flows to calculate			
	(a)	Cash value of money	(c)	Net future value
	(b)	Net initial investment	(d)	Time value of money
62.	Which of the following statements is true about mutually exclusive projects?			
	(a)	They are not in direct competition with each other.		
	(b)	They are in direct competition with each other.		
	(c)	They are not evaluated based on shareholder wealth.		
	(d)	They are never evaluated.		
63.	Why are projects with negative net present values (NPVs) unacceptable to a firm?			
	(a)	Returns lower than the cost of capital result in firm failure.		
	(b)	Returns with negative NPVs cause an equal profit ratio.		
	(c)	Returns with negative NPVs are acceptable to a firm.		
	(d)	Returns lower than the cost of capital result in higher profit ratios		
64.	Internal Rate of Return is defined as -			
	(a)	The discount rate which causes the payback to equal one year.		
	(b)	The discount rate which causes the NPV to equal zero.		
	(c)	The ROE when the NPV equals 0.		
	(d)	The ROE associated with project maximization.		

65. What are the two drawbacks associated with the payback period?
(a) The time value of money is ignored. It ignores cash flows beyond the payback period.
(b) The time value of money is considered. It ignores cash flows beyond the payback period.
(c) The time value of money is considered. It includes cash flows beyond the payback period.
(d) The time value of money is ignored. It includes cash flows beyond the payback period.

66. Which of the following cash flows should not be considered relevant in calculating project cash flows?
(a) Opportunity costs
(b) Any effects caused by cannibalization
(c) Investments in net working capital as a result of making the investment
(d) Sunk costs

67. Which of the following is not used in capital budgeting?
(a) Time value of money
(c) Net assets method
(b) Sensitivity analysis
(d) Cash flows

68. Which of the following is not incorporated in Capital Budgeting?
(a) Tax Effect
(c) Required Rate of Return
(b) Time Value of Money
(d) Rate of Cash Discount

69. Which of the following is not applied in capital budgeting?
(a) Cash flows be calculated in incremental terms
(b) All costs and benefits are measured on cash basis
(c) All accrued costs and revenues be incorporated
(d) All benefits are measured on after tax basis

70. A proposal is not a capital budgeting proposal if it:
(a) is related to Fixed Assets
(c) brings short-term benefits only
(b) brings long-term benefits
(d) has very large investment

ANSWERS

1	2	3	4	5	6	7	8	9	10	11	12	13	14
(c)	(d)	(b)	(b)	(d)	(a)	(b)	(d)	(d)	(c)	(a)	(d)	(b)	(c)
15	16	17	18	19	20	21	22	23	24	25	26	27	28
(d)	(c)	(a)	(c)	(b)	(d)	(a)	(a)	(a)	(a)	(a)	(c)	(b)	(c)
29	30	31	32	33	34	35	36	37	38	39	40	41	42
(d)	(c)	(d)	(b)	(c)	(d)	(c)	(b)	(b)	(b)	(c)	(a)	(c)	(c)
43	44	45	46	47	48	49	50	51	52	53	54	55	56
(c)	(a)	(b)	(a)	(a)	(c)	(d)	(b)	(d)	(b)	(c)	(c)	(c)	(a)
57	58	59	60	61	62	63	64	65	66	67	68	69	70
(d)	(c)	(b)	(a)	(b)	(b)	(a)	(b)	(a)	(d)	(c)	(d)	(c)	(c)

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