1. Decision about mergers, takeovers, expansion, liquidiation were covered in financial management under______________phase of Financial Management
   (a) Traditional
   (b) Transitional
   (c) Modern
   (d) None

2. Wealth maximisation approach is based on the concept of
   (a) Cost benefit analysis
   (b) Cash flow approach
   (c) Time value of money
   (d) All of the above

3. Management of all matters related to an organisation's finances is called
   (a) Cash inflows and outflows
   (b) Allocation of resources
   (c) Financial management
   (d) Finance

4. ________ is the main goal of financial management.
   (a) profit maximization
   (b) fund transfer
   (c) maximum returns
   (d) wealth maximization

5. Reserves & Surplus are which form of financing
   (a) Security Financing
   (b) Internal Financing
   (c) Loans Financing
   (d) International Financing

6. A principal agent relationship between ________ and ________ which is known as Agency Problem
   (a) Managers & Owner
   (b) Executive & Proprietor
   (c) both (a) & (b)
   (d) Managers & secretary

7. Which of the following is the disadvantage of having shareholders wealth maximisation goals
   (a) Emphasizes the short-term gains
   (b) Ignores the timing of returns
   (c) Requires immediate resources
   (d) Offers no clear relationship between financial decisions and share price

8. Focus of financial management is mainly concerned with the decision related to
(a) Financing
(b) Investing
(c) Dividend
(d) All of above

9. "Shareholders Wealth" in a firm is reflected 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

10. Which of the following are microeconomic variables that help define and explain the discipline of finance
(a) Risk and return
(b) Capital structure
(c) Inflation
(d) All of the above

11. The shareholder value maximisation model holds that the primary goal of the firm is to maximise its
(a) Accounting profit
(b) Liquidity
(c) Market value
(d) Working capital

12. Which of the following need not be followed by the finance manager for measuring and maximising shareholders' wealth
(a) Accounting profit analysis
(b) Cash Flow approach
(c) Cost benefit analysis
(d) Application of time value of money

13. Which of the following activities are performed by CFOs now in addition to those performed by past CFOs
(a) Budgeting
(b) Forecasting
(c) Risk Management
(d) Treasury management

14. The main objective of financial management is to
(a) Secure profitability
(b) Maximise shareholder wealth
(c) Enhancing the cost of debt
(d) None of above

15. which of the following is the common connection in financing, investing decisions
(a) Investment instruments type should be same as financing instrument type
(b) Investments will definitely grow in line with financing
(c) Debt Equity ratio should be same for investments and financing actions
(d) Risk Return Trade off

16. Which of following activities will not lead to increase in shareholders wealth?
(a) Investing in projects with high cash flows
(b) Raising funds through sources which have low cost
(c) Regular growth in dividends
(d) Maintaining high levels of cash at bank

17. Financial Management is mainly concerned with the
(a) Acquiring and developing assets to forfeit its overall benefit
(b) Acquiring, financing and managing assets to accomplish the overall goal of a business enterprise
(c) Efficient management of the business
(d) Sole objective of profit maximisation

Answer Key:

1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.	13.	14.	15.
a	d	c	d	b	c	d	d	d	d	c	a	c	b	d
16.	17.													
d	b													

1. Planning is _______ process of an audit that often begins shortly after (or in connection with) the completion of the previous audit and continues until the completion of the current audit engagement:
   (a) continuous
   (b) discrete
   (c) neither continuous nor discreet
   (d) strategic

2. An _____________consists of a series of verification procedures to be applied to the financial statements and accounts of a given entity for the purpose of obtaining sufficient evidence to enable the auditor to express an informed opinion on financial statements.
   (a) audit programme
   (b) audit plan
   (c) assertion
   (d) audit paper

3. which of the following is not addressed by the overall audit strategy :
   (a) scope of the audit
   (b) timing of the audit
   (c) direction of the audit
   (d) monitoring of the audit

4. Which of the following is correct:
   (a) The auditor shall establish an audit plan that sets the scope, timing and direction of the audit, and that guides the development of the overall audit strategy.
   (b) The auditor shall establish an overall audit strategy that sets the scope, timing and direction of the audit, and there is no need to guide the development of the audit plan.
   (c) The auditor shall establish an overall audit strategy that sets the scope, timing and direction of the audit, and that guides the development of the audit plan.
   (d) The auditor shall establish an audit plan that sets the scope, timing and direction of the audit, and that there is no need to guide the development of the overall audit strategy.

5. Advesh & Co, Chartered Accountants firm got an assignment of statutory audit for 3 years of Vinesh LLP. The first year of audit was FY 2021-22. During the first and second year of audit, Advesh & Co devised an audit plan for Vinesh LLP and did not prepare an audit plan for FY 2023-24. Kindly state which of the following statement is true in the above context.
   (a) Advesh & Co need not prepare the audit plan for FY 2023-24 because the audit plan is already prepared in the first year of audit.
   (b) Advesh & Co need not prepare the audit plan for FY 2023-24 since it is recurring audit.
   (c) Advesh & Co should prepare the audit plan for FY 2023-24 because planning is not a discrete phase of an audit, but rather a continual and iterative process.
   (d) Advesh & Co need not prepare the audit plan for FY 2023-24 because the audit plan is prepared for two years of audit.

6. Audit programme is prepared for use of: -

(a) Only engagement partner conducting the audit

(b) Only Chartered Accountant employees of team conducting the audit

(c) Only articled clerks of team conducting the audit

(d) All engagement team members conducting the audit

7. ________means materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatement exceeds materiality for the financial statements as a whole :-

(a) Benchmark Materiality

(b) Materiality in Planning

(c) Performance Materiality

(d) Materiality.

8. Planning an audit involves

(a) establishing the overall audit strategy for the engagement and developing an audit plan.

(b) establishing the overall audit plan for the engagement and developing an audit strategy.

(c) establishing the overall audit plan for the engagement

(d) developing an audit strategy.

9. Which of following is not an element of planning by an auditor?

(a) Preliminary engagement activities

(b) Establishing overall audit strategy

(c) Developing an audit plan

(d) Issuing a written audit report

10. CA X is in the process of establishing audit strategy for a company engaged in the business of trading of Fast-moving consumer goods (FMCG). Which of following is not a factor to be considered by CA X while establishing audit strategy for the company?

(a) Expected AGM timeline of the company

(b) Volume of transactions

(c) Reporting requirements under Schedule III of Companies Act, 2013

(d) Deciding about appropriateness of type of audit procedures to be used in conducting the audit

11. CA Manoj Kapadia is auditor of a hospital owned by an eye surgeon. His annual professional receipts are about Rs.3 crores. All eye surgeries are being performed by him and two hours are devoted in evening OPD. Employee strength in hospital is 10. Mr. Kapadia is also auditor of a multi-speciality hospital located in the same city having annual receipts of Rs.75 crores. It has employee strength of 200. Which of the statements is most appropriate regarding internal controls?

(a) Internal controls are likely to be more structured in eye surgeon's hospital whereas these are likely to be less structured in multi-speciality hospital.

(b) Eye surgeon cannot easily override controls in hospital.

(c) Internal controls are likely to be less structured in eye surgeon's hospital whereas these are likely to be more structured in multi-speciality hospital.

(d) Internal controls at multi-speciality hospital can be easily overridden without catching attention of auditor.

12. Which of following is false regarding nature of audit planning?

(a) Planning is not a distinct phase of audit.

(b) Engagement team members are not involved in audit planning.

(c) Elements of planning may be discussed by auditor with company's management.

(d) Planning includes need to consider determination of materiality

13. Statement 1: The establishment of the overall audit strategy and the detailed audit plan are not necessarily discrete or sequential process but are closely inter-related.

Statement 2: The auditor shall establish an overall audit strategy that guides the development of audit plan.

(a) only Statement 1 is correct

(b) Only Statement 2 is correct

(c) Both Statements 1 & 2 are correct

(d) Both Statements 1 & 2 are incorrect

14. CA Tarini is in process of formulating audit plan for conducting audit of a company engaged in business of dealing in commodity futures. Which of following is not likely to be an appropriate audit procedure to be included in audit plan for the abovesaid company?

(a) Verification of turnover of company

(b) Verification of cost of raw material consumed

(c) Examination of company's accounting policy for revenue recognition

(d) Verification of contract notes with brokers

15. The overall audit strategy and the audit plan remain the ________ responsibility

(a) auditor's

(b) management's

(c) those charged with governance.

(d) both management and those charged with governance.

16. Once the overall audit strategy has been established, ________can be developed to address the various matters identified in the overall audit strategy, taking into account the need to achieve the audit objectives through the efficient use of the auditor's resources.

(a) audit strategy

(b) audit plan

(c) audit plan and audit strategy

(d) audit note book

17. The auditor shall develop an audit plan that shall include a description of:

(a) The nature, timing and extent of planned risk assessment procedures

(b) The nature, timing and extent of planned further audit procedures at the assertion level.

(c) Other planned audit procedures that are required to be carried out so that the engagement complies with SAs.

(d) All of the above

Answer Key:

1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.	13.	14.	15.
a	a	d	c	c	d	c	a	d	d	c	b	c	b	a
16.	17.													
b	d													

1. Ratio of net profit before interest and tax to sales is
(a) Gross profit ratio
(b) Net profit ratio
(c) Operating profit ratio
(d) Interest coverage ratio

2. If Working capital of company is ₹1,35,000, Current ratio=2.5, Liquid ratio=1.5, reserve & surplus is=₹90,000 then what are the Quick assets of the company?
(a) 90,000
(b) 1,35,000
(c) 1,45,000
(d) 60,000

3. Which of the following is not true about ratio analysis?
(a) It is affected by price level changes.
(b) It is difficult to evolve a standard ratio.
(c) It can give false and misleading results.
(d) It is not useful in inter-firm and intra firm comparison.

4. Current Ratio is 2.5:1 and Liquid Ratio is 1.5:1. If inventory is ₹ 9,60,000, then the amount of current assets will be:
(a) ₹ 9.6 Lakh
(b) ₹ 14.40 Lakh
(c) ₹ 24 Lakh
(d) ₹ 38.40 Lakh

5. Which of the following is not a part of Quick Assets
(a) Disposable investments
(b) Receivables
(c) Cash and Cash equivalents
(d) Prepaid expenses

6. The ___________ is useful in evaluating credit and collection policies.
(a) Average payment period
(b) Current ratio
(c) Average collection period
(d) Inventory turnover ratio

7. Given data:- Gross Profit= ₹60,000, GP Ratio=20%, Stock Velocity=6 times then find out what is avaerage stock ?
(a) 40,000
(b) 300,000
(c) 240,000
(d) 37,500

8. Long-term solvency is indicated by

(a) Debt/equity ratio

(b) Current Ratio

(c) Operating ratio

(d) Net profit ratio

9. Which of the following is a liquidity ratio

(a) Equity ratio

(b) Proprietary ratio

(c) Net Working Capital

(d) Capital Gearing ratio

10. Capital Gearing ratio is the fraction of

(a) Preference Share Capital and Debentures to Equity Share Capital and Reserve & Surplus.

(b) Equity Share Capital and Reserve & Surplus to Preference Share Capital and Debentures.

(c) Equity Share Capital to Total Assets.

(d) Total Assets to Equity Share Capital

11. From the following information, calculate P/E ratio:

Equity share capital of ₹ 10 each	₹ 8,00,000
9% Preference share capital of ₹ 10 each	₹ 3,00,000
Profit (after 35% tax)	₹ 2,67,000
Depreciation	₹ 67,000
Market price of equity share	₹ 48

(a) 15 times

(b) 16 times

(c) 17 times

(d) 18 times

12. Total sales=3000000, Cash sales 25% of credit sales, Debtors Turnover is 8times then what are the average debtors?

(a) 2400000

(b) 300000

(c) 600000

(d) 900000

13. Which ratio not include fictitious assets and losses

(a) Cost of goods purchased and cost of average inventory

(b) Cost of goods sold and cost of average inventory, and cost of goods purchased and cost of average inventor

(c) Cost of goods sold and cost of average inventory

(d) None of the options is correct

14. Which of the following is not true about ratio analysis

(a) It is affected by price level changes

(b) It is difficult to evolve a standard ratio

(c) It can give false and misleading results
(d) It is not useful in inter-firm and intra firm comparison

15. If Gross Profit=54000, GP Ratio=20%, Average collection period is 18 days (360 Days year), then find out Average Debtors considering that credit sales are 80% of total sales?
(a) 13500
(b) 10800
(c) 12000
(d) 14000

16. Inventory ratio is a relationship between _______.
(a) Cost of goods purchased and cost of average inventory
(b) Cost of goods sold and cost of average inventory, and cost of goods purchased and cost of average inventory
(c) Cost of goods sold and cost of average inventory
(d) None of the options is correct

17. Observing changes in the financial variables across the years is
(a) Vertical analysis
(b) Horizontal Analysis
(c) Peer-firm Analysis
(d) Industry Analysis

18. The Receivable-Turnover ratio helps management to
(a) Managing resources
(b) Managing inventory
(c) Managing customer relationship
(d) Managing working capital

19. Calculate operating expenses from the information given below

Sales	₹75,00,000
Rate of income tax	50%
Net profit to sales	5%
Cost of goods sold	₹32,90,000
Interest on debentures	₹60,000

(a) ₹ 41,00,000
(b) ₹ 8,10,000
(c) ₹ 34,00,000
(d) ₹ 33,90,000

20. A company has average accounts receivable of ₹ 10,00,000 and annual credit sales of ₹ 60,00,000. Its average collection period would be
(a) 60.83 days
(b) 6.00 days
(c) 1.67 days
(d) 0.67 days

Answer Key:

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

1. Cost of Capital refers to
(a) Floatation Costs
(b) Dividend
(c) Minimum Required Rate of Return
(d) Opportunity cost

2. While issuing new equity shares, the cost of issue is known as
(a) WACC
(b) Cost of Equity
(c) Cost of Debt
(d) Floatation Cost

3. Which of the following statement is false
(a) Retained earnings do not involve any cost
(b) Weightage average cost of capital is sum total of cost of debt and equity
(c) Cost of equity is impacted by tax effects
(d) All of the above

4. In order to find cost of equity under CAPM, which of these is not required
(a) Risk free rate
(b) Beta
(c) Market Price of the Security
(d) Market Rate of Return

5. The average collection period is used as an accounting measure to symbolize the avg. No. of days among a credit score sale date and the date whilst the customer remits payment. An entity's average collection period indicates the effectiveness of its Accounts Receivable (or Trade Receivables) Management.
(a) EPS
(b) DPS
(c) PE Ratio
(d) Credit Rating

6. Interest on government bonds is also known as
(a) Beta of the security
(b) Market Rate of Return
(c) Market Price of the Security
(d) Risk Free Rate of Return

7. A company's equity share is currently selling for 50 per share. Current year's dividend was Rs. 2 per share and the earnings of the company is expected to increase by 5%. What is the firm's cost of existing equity
(a) 9.2%
(b) 4.2%
(c) 14%
(d) 9%

8. A company recently issued 9% preferred shares. The preferred shares sold for Rs. 40 a share with a par of Rs. 20. The cost of issuing the stock was Rs. 5 a share. What is the company's cost of preferred share

(a) 9%

(b) 4.5%

(c) 5.1%

(d) 10.3%

9. Cost of capital is lowest in case of debt because of

(a) Tax Deductibility

(b) Lower Stated rate

(c) Time Value of Money

(d) All of the above

10. Cost of capital is that minimum ____, which a firm must and is expected to earn on its ____ so as to maintain the market value of its shares

(a) investments, rate of return

(b) rate of return, investments

(c) expenditure, rate of return

(d) rate of return, expenditure

11. A company is considering a project with an initial cost of Rs.1 million. The project is expected to generate cash flows of Rs.500,000 per year for 5 years. The company's cost of capital is 12%. What is the project's net present value?

(a) ₹ 7,99,610.00

(b) ₹ 10,24,323.00

(c) ₹ 10,93,515.00

(d) ₹ 11,68,916.00

12. Equity financing may be considered better than debt financing because of the fact that

(a) Issuance cost of equity is lesser than that of debt

(b) It is more attractive for investors because of potential for higher returns

(c) Dividend is tax deductible

(d) It is less expensive than debt

13. Which of the following has an implicit cost of capital

(a) Equity Shares

(b) Preference Shares

(c) Retained Earnings

(d) Debentures

14. A company's debt equity ratio is 3:5. Pretax cost of debt and equity are 7% and 10% respectively. What is the weighted average cost of capital if the tax rate is 30%?

(a) 12.21%

(b) 17%

(c) 14.9%

(d) 8.09%

15. Cost of capital is highest in case of
(a) Debt
(b) Equity
(c) Loans
(d) Bonds

16. An organization can affect its WACC through changing
(a) Capital Structure
(b) Dividend Policy
(c) Investment Policy
(d) All of these

17. A company's equity share is currently selling for Rs. 50 per share. Current year's dividend was Rs. 2 per share and the earnings of the company is expected to increase by 5%. What is the firm's cost of existing equity
(a) 9.2%
(b) 4.2%
(c) 14%
(d) 9%

18. Increase in which of the following would not increase cost of equity calculated on the basis of capital asset pricing model?
(a) Market Risk premium
(b) Expected market rate of interest
(c) Beta
(d) Effective tax rate

19. Capital Structure weights can be based on
(a) Market Values of Debt & Equity
(b) Market Value of Equity & Face value of Debt
(c) Initial Issue Price of Debt & Equity
(d) Book Value of Assets

20. With retention ratio of 60% and return on equity of 15.5%, the growth rate shall be
(a) 14.90%
(b) 9.30%
(c) 25.84%
(d) 16.10%

Answer Key:

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

1. A firm's optimal capital structure
(a) Is the debt-equity ratio that results in the minimum possible weighted average cost of capital
(b) 40 percent debt and 60 percent equity
(c) When the debt-equity ratio is 0.50
(d) When Cost of equity is minimum

2. To have optimal capital structure the firm must have fulfill the following condition -
(a) Return on investment should be greater than cost of investment.
(b) There should be minimum financial risk.
(c) Cost of investment should be greater than return of investment.
(d) All the above.

3. Which one of the following approaches of the capital structure pleads that debt financing initially increases the value of the firm;however excess debt financing beyond a particular point reduces the value of the firm?
(a) Net income approach
(b) Net operating income approach
(c) Traditional approach
(d) M&M Approach

4. Consider the below mentioned statements
(1) A company is considered to be over-capitalised when its actual capitalisation is lower than the proper capitalisation as warranted by the earning capacity.
(2) Both over-capitalisation and under-capitalisation are detrimental to the interests of the society.
State True or False:
(c) 1-True, 2-True
(d) 1-False, 2-True
(e) 1-False, 2-False
(f) 1-True, 2-False

5. A critical assumption of the Net Operating Income (NOI) approach to valuation is
(a) That debt and equity levels remain unchanged
(b) That dividends increase at a constant rate
(c) That ko remains constant regardless of changes in leverage
(d) That interest expense and taxes are included in the calculation

6. If the debt component in the capital structure is predominant
(a) The fixed interest cost of the firm will be minimum thereby decreasing its risk.
(b) Earning per share (EPS)will be very low.
(c) Dividend expectation of the equity shareholders are also & PE ratio may decrease.
(d) The fixed interest cost of the firm increases thereby increasing its risk.

7. Ram Verse Ltd is an all equity financed company. It is considering replacing Rs. 275 lakhs equity shares with 15% debentures of the same amount. Current Market value of the company is 1750 lakhs with cost of capital at 20%. Future EBITs are going to be constant and entire earnings are going to

be distributed. Corporate Tax Rate can be assumed to be 30%. What will be the new market value of the firm?

(a) Rs.1832.5 lakhs

(b) Rs.82.50 lakhs

(c) Rs.1750 lakhs

(d) Rs.1732.50 lakhs

8. Assertion(A)Risk principle of capital structure is one that minimize cost of capital structure. Reason (R)According to this principle, reliance is placed more on equity for financial purpose.

(a) Both A & R are true, and R is correct explanation of A

(b) Both A & R are true, but R is not correct explanation of A

(c) A is true, but R is false

(d) A is false, but R is true

9. The number of indifference points possible between 5 financial plans are

(a) 5

(b) 8

(c) 3

(d) 10

10. Mr. Dashan recently came back from a conference titled Capital Structure Theory and was extremely excited about what he learned concerning Modigliani and Miller's capital structure propositions. He has been trying to choose between three potential capital structures for his firm,Dashmart Corporation, and believes that Modigliani and Miller's work may guide him in the right direction. The capital structures Munn is considering are:

CSI: 100% equity.

CS II: 50% equity and 50% debt.

CS III: 100% debt.

If he uses Modigliani and Miller's propositions and includes all of their assumptions including the assumption of no taxes, which capital structure is he most likely to choose?

Which capital struture would be choosen in case of tax regime?

(a) CS I and CS II

(b) CS I and CS III

(c) CS II and CS III

(d) Any CS and CS III

11. Which of the following statements regarding Modigliani and Miller's propositions (assuming perfect capital markets and homogenous expectations) is most accurate?

(a) Firm value is maximized with a capital structure consisting of 100% equity.

(b) The cost of equity increases as the firm increases its financial leverage

(c) The use of debt financing increases the firm's weighted average cost of capital

(d) None of the above

12. Which of the following is irrelevant for optimal capital structure

(a) Flexibility

(b) Solvency

(c) Liquidity

(d) Control

13. Which of the following steps may be adopted to avoid the negative consequences of over-capitalisation

(a) The shares of the company should be split up. This will reduce dividend per share, though EPS shall remain unchanged

(b) Issue of Bonus Shares

(c) Revising upward the par value of shares in exchange of the existing shares held by them

(d) Reduction in claims of debenture-holders and creditors

14. The assumptions of MM hypothesis of capital structure do not include the following

(a) Capital markets are imperfect

(b) Investors have homogeneous expectations

(c) All firms can be classified into homogeneous risk classes

(d) The dividend-payout ratio is cent percent, and there is no corporate tax

15. An EBIT-EPS indifference analysis chart is used for

(a) Evaluating the effects of business risk on EPS

(b) Examining EPS results for alternative financial plans at varying EBIT levels

(c) Determining the impact of a change in sales on EBIT

(d) Showing the changes in EPS quality over time

16. The term "capital structure" means

(a) Long-term debt, preferred stock, and equity shares

(b) Current assets and current liabilities

(c) Net working capital

(d) Shareholder's equity

17. Statement 1: If our corporate tax rate increases from 25% to 30%, our weighted average cost of capital is likely to decline.

Statement 2: What is happening in the stock or bond markets is irrelevant to our decisions for how to raise capital. We should always seek to raise capital in the exact proportions called for by our optimal capital structure

Which of the Statements 1 and 2, correct or incorrect?

(a) Correct, Correct

(b) Incorrect, correct

(c) Incorrect, Incorrect

(d) Correct, Incorrect

18. Financial Structure refers to

(a) All financial resources

(b) Short-term funds

(c) Long-term funds

(d) None of these

19. The cost of monitoring management is considered to be a (an)
(a) Bankruptcy cost
(b) Transaction cost
(c) Agency cost
(d) Institutional cost

20. Assertion(A)Risk principle of capital structure is one that minimize cost of capital structure.Reason(R) According to this principle ,reliance is placed more on equity for financial purpose.
(a) Both A & R are true and R is correct explanation of A
(b) Both A & R are true but R is not correct explanation of A
(c) A is true but R is false
(d) A is false, but R is true

Answer Key:

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

1. Operating leverage is 7 and financial leverage is 2.2858. How much change in sales will be required to bring 70% change in EBIT?
(a) 10%
(b) 70%
(c) 11.429%
(d) 30%

2. Which of the following indicates business risk
(a) Operating leverage
(b) Financial leverage
(c) Combined leverage
(d) Total leverage

3. Degree of combined leverage is the fraction of
(a) Degree of combined leverage is the fraction of
(b) Percentage change in EPS on Percentage change in Sales
(c) Percentage change in Sales on Percentage change in EPS
(d) Percentage change in EPS on Percentage change in EBIT

4. If Margin of Safety is 0.25 and there is 8% increase in output, then EBIT will be:
(a) Decrease by 2%
(b) Increase by 32%
(c) Increase by 2%
(d) Decrease by 32%

5. From the following information, calculate combined leverage:

Sales	₹ 20,00,000
Variable Cost	40%
Fixed Cost	₹ 10,00,000
Borrowings ₹	10,00,000 @ 8% p.a.

(a) 10 times
(b) 6 times
(c) 1.667 times
(d) 0.10 times

6. A firm with high operating leverage is characterized by_________ while one with high financial leverage is characterized by ___________.
(a) Low fixed cost of production; low fixed financial costs
(b) High variable cost of production; high variable financial costs
(c) High fixed costs of production; high fixed financial costs
(d) Low costs of production; high fixed financial costs

7. Given
Operating fixed costs ₹ 20,000
Sales ₹ 1,00,000
P/ V ratio 40%

The operating leverage is:

(a) 2.00
(b) 2.50
(c) 2.67
(d) 2.47

8. There is no operating leverage if there is no …………

(a) Profit
(b) Sales
(c) Fixed cost
(d) EPS

9. 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%

10. If DOL is 1.24 and DFL is 1.99, DCL would be

(a) 2.14
(b) 2.18
(c) 2.31
(d) 2.47

11. Financial leverage may be defined as

(a) Use of funds with a product cost in order to increase earnings per share
(b) Use of funds with a contribution cost in order to increase earnings before interest and taxes
(c) Use of funds with a fixed cost in order to increase earnings per share
(d) Use of funds with a fixed cost in order to increase earnings before interest and taxes

12. …………. is the ratio of net operating income before fixed charges to net operating income after fixed charges.

(a) Financial Leverage
(b) Operating Leverage
(c) Operation Leverage
(d) Combined Leverage

13. Financial Leverage is calculated as

(a) EBIT ÷ Contribution
(b) EBIT ÷ PBT
(c) EBIT ÷ Sales
(d) EBIT ÷ Variables Cost

14. If EBIT is ₹ 15,00,000, interest is ₹ 2,50,000, corporate tax is 40%, degree of financial leverage is;

(a) 1.11
(b) 1.20

(c) 1.31
(d) 1.41

15. The cash required during a specific period to meet interest expenses and principal payments is referred to as the:
(a) Debt capacity
(b) Debt-service burden
(c) Adequacy capacity
(d) Fixed-charge burden

16. A firm has sales of ₹ 75,00,000, variable cost of ₹ 42,00,000 and fixed cost of ₹ 6,00,000. It has a debt of ₹ 45,00,000 at 9% and equity of ₹ 55,00,000. Does it have favourable financial leverage?
(a) ROI is less than interest on loan funds and hence it has no favourable financial leverage."
(b) ROI is equal to interest on loan funds and hence it has favourable financial leverage.
(c) ROI is greater than interest on loan funds and hence it has favourable financial leverage.
(d) ROI is greater than interest on loan funds and hence it has unfavourable financial leverage.

17. Total assets of Alpha Company are ₹ 3,00,000. The company's total assets turnover ratio is 3, its fixed operating cost is ₹ 1,50,000 and its variable operating cost ratio is 50%.
The income-tax rate is 50%. It also has long term debts of ₹ 1,20,000 on which interest @ 10% is payable. Operating, Financial & Combined Leverages of the company are –
(a) 1.5; 1.042; 1.563 respectively
(b) 1.05; 1.42; 1.05625 respectively
(c) 1.50; 1.42; 2.13 respectively
(d) 1.55; 1.042; 1.6151 respectively

18. Operating Leverage is calculated as
(a) Contribution ÷ EBIT
(b) EBIT ÷ PBT
(c) EBIT ÷ Interest
(d) EBIT ÷ Tax

19. There is no operating leverage if there is no …………
(a) Profit
(b) Sales
(c) Fixed cost
(d) EPS

20. Which of the following is correct
(a) CL = OL + FL
(b) CL = OL – FL
(c) CL = OL × FL
(d) OL = OL ÷ FL

Answer Key:

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

1. Capital Budgeting is important for the below reasons except
(a) They are irreversible
(b) They involve substantial investment
(c) They are for short period of time
(d) They are complex & futuristic

2. With limited capital & number of available projects, one should select the project with
(a) IRR less than Cost of Capital
(b) Profitability Index less than 1
(c) Lowest Internal Rate of Return
(d) Highest Net Present Value

3. A project whose useful life is 4 years has IRR of 15% and will save cost of ₹ 1,60,000 annually. What is the project cost i.e. initial investment?
(a) ₹ 10,66,667
(b) ₹ 4,60,000
(c) ₹ 5,32,800
(d) ₹ 4,56,800

4. The Reinvestment assumption under NPV method assumes that the cash flows are reinvested at the
(a) Marginal Cost of Capital
(b) Internal Rate of Return
(c) Discount rate used to calculate NPV
(d) Bank Borrowing rate

5. A project's net present value, ignoring income tax considerations, is normally affected by the
(a) Proceeds from the sale of the asset to be replaced
(b) Carrying amount of the asset to be replaced by the project
(c) Amount of annual depreciation on the asset to be replaced
(d) Amount of annual depreciation on fixed assets used directly on the project

6. Using capital budgeting techniques, A project is accepted when
(a) Net Present Value is positive
(b) Profitability Index is more than 1
(c) Its IRR is greater than Cost of Capital
(d) Any of the above

7. Which of these methods of capital budgeting are based on cash flows
(a) Payback Method
(b) NPV
(c) Profitability Index
(d) All of the above

8. Which of these methods of capital budgeting are based on cash flows
(a) Payback Method
(b) NPV

(c) Profitability Index

(d) All of the above

9. In considering the payback period for three projects, Sun Corp. gathered the following data about cash flows:

	Year 1	Year 2	Year 3	Year 4	Year 5
Project X	(20,000)	6,000	6,000	6,000	6,000
Project Y	(50,000)	30,000	30,000	10,000	5,000
Project Z	(20,000)	10,000	10,000	5,000	

(a) Projects X, Y and Z.

(b) Projects Y and Z.

(c) Project Y only.

(d) Projects X and Z

10. Which of the following is one of the steps in capital budgeting process

(a) Controlling Selling Expenses

(b) Determination of Price

(c) Deciding the capital structure

(d) Estimation of Project cash flows

11. Depreciation is taken into consideration in capital budgeting because

(a) It reduces Tax liability

(b) It is unavoidable

(c) It is a cash outflow

(d) It is a cash inflow

12. Which of the following statement is not true for capital budgeting

(a) Irreversible decisions

(b) Sunk Cost is Relevant cost

(c) Affect future stability of firm

(d) Can relate to Business Expansion

13. With initial investment of ₹ 100,000 and yearly cash inflows of ₹ 27,000 for 5 years, the NPV of the project with cost of capital of 10% shall be approximately

(a) 35,000

(b) -2,357

(c) 2,357

(d) -35,000

14. Discounted payback period for a project shall be __________ the payback period of the same project.

(a) Equal to

(b) More Than

(c) Less Than

(d) Half

15. Which of the following is not followed in discounting techniques of capital budgeting
(a) Cash Flow Principal
(b) Accrual Principal
(c) Interest Exclusion
(d) Post Tax Principal

16. Which of the following events would decrease the internal rate of return of a proposed asset purchase?
(a) Decrease related working capital requirements
(b) Shorten the payback period
(c) Decrease tax credits on the asset
(d) Use accelerated, instead of straight-line depreciation

17. Bhaskar Ltd. estimated that a proposed project's 8-year net cash benefit will be ₹ 4,000 per year for years 1 to 8, with an additional terminal benefit of ₹ 8,000 at the end of the eighth year. Assuming that these cash inflows satisfy exactly the required rate of return of 8 percent, the project's initial cash outflow is closest to which of the following four possible answers?
(a) ₹ 27,308
(b) ₹ 25,149
(c) ₹ 14,851
(d) ₹ 40,000

18. With IRR criteria and no limitation on funds, one can accept projects which have
(a) IRR more than cost of capital
(b) IRR less than cost of capital
(c) IRR being equal to borrowing rate
(d) All of the above

19. Which of the following is not a capital budgeting decision
(a) Inventory Control
(b) Business Expansion
(c) Acquisition of Long Term Asset
(d) Replacement of Existing Asset

20. The best method to evaluate the projects with unequal lives can be
(a) ARR or Payback Period
(b) Replacement Chain or Equivalent Annualized Criteria
(c) NPV or Discounted Payback
(d) None of these

Answer Key:

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

1. What are the different options other than cash used for distributing profits to shareholders
   (a) Bonus shares
   (b) Stock split
   (c) Both (a) and (b)
   (d) None of the above

2. Determine the market price of share of XYZ ltd as per gordon's model, given equity capitalisation rate =11% expected earning =Rs. 20 rate of return on investement =10% & retention ratio =30%
   (a) 165
   (b) 175
   (c) 185
   (d) 195

3. According to the residual dividend theory ,dividend payment is determined based on
   (a) The availability of excess fund after all investment opportunities with positive net present value are undertaken
   (b) The preference of shareholder for a consistent dividend payout ratio
   (c) The desire to maintain a stable dividend payout ratio regardless of investment opportunity.
   (d) The goal of maximizing shareholder wealth by paying out all available earning as dividend

4. Which of the following is the limitation of Linter's model?
   (a) Market price per share is reduced after the split.
   (b) the number of outstanding shares is increased.
   (c) Retained earnings are changed.
   (d) Proportional ownership is unchanged.

5. Which one of the following is the assumption of Gordon's Model
   (a) Ke > g
   (b) Retention ratio, (b), once decide upon, is constant
   (c) Firm is an all equity firm
   (d) All of the above

6. Compute EPS according to Graham & Dodd approach from the given information:

Market price	Rs.56
Dividend pay-out ratio	60%
Multiplier	2

   (a) Rs 30
   (b) Rs 56
   (c) Rs 28
   (d) Rs 84

7. All of the following are true of stock splits except:
   (a) More Dividend
   (b) Less dividend
   (c) No Dividend
   (d) None of the above

8. Which of the following is the limitation of Linter's model
(a) This model does not offer a market price for the shares
(b) The adjustment factor is an arbitrary number and not based on any scientific criterion or methods
(c) Both (a) & (b)
(d) None of the above

9. Which of the following is the irrelevance theory?
(a) Walter model
(b) Gordon model
(c) M.M. hypothesis
(d) Linter's model

10. If the shareholders prefer regular income, how does this affect the dividend decision
(a) It will lead to payment of dividend
(b) It is the indicator to retain more earnings
(c) It has no impact on dividend decision
(d) Can't say

11. What should be the optimum Dividend pay-out ratio, when r = 15% & K = 12%:
(a) 100%
(b) 50%
(c) Zero
(d) None of the above

12. The 'Dividend-Payout Ratio' is equal to
(a) The Dividend yield plus the capital gains yield
(b) Dividends per share divided by Earning per Equity Share
(c) Dividends per share divided by par value per share
(d) Dividends per share divided by current price per share

13. If the company's D/P ratio is 60% & ROI is 16%, what should be the growth rate
(a) 5%
(b) 7%
(c) 6.4%
(d) 9.6%

14. Which of the following is the limitation of Linter's model?
(a) This model does not offer a market price for the shares.
(b) The adjustment factor is an arbitrary number and not based on any scientific criterion or methods.
(c) Both (a) & (b)
(d) None of the above

15. If a firm declared 25% dividend on share of face value of Rs 10 its growth rate is 5%& its rate of capitaliation is 12% its expected price would be Rs...
(a) 31.2
(b) 33.50
(c) 36
(d) 37.50

16. Mature companies having few investment opportunities will show high payout ratios, this statement is
(a) False
(b) True
(c) Partial true
(d) None of these

17. Determine the market price of share of XYZ ltd as per gordon's model, given equity capitalisation rate =11% expected earning =Rs. 20 rate of return on investment =10% & retention ratio =30%
(a) 165
(b) 175
(c) 185
(d) 195

18. The cost of capital of a firm is 12% & its expected earning per share at the end of the year is Rs 20. its existing payout ratio is 25%. the company is planning to increase its payout ratio to 50% what will be the effect of this change on the market price of equity share (MPS) of the company as per Gordon model ,If the reinvestment rate of the company is 15%
(a) It will increase by Rs 444.45
(b) It will decrease by Rs 444.45
(c) It will increase by Rs 222.22
(d) It will decrease by Rs 222.22

19. Which of the following statement is correct with respect to Gordon's model
(a) When IRR is greater than cost of capital, the price per share increases and dividend pay-out decreases.
(b) When IRR is greater than cost of capital, the price per share decreases and dividend pay-out increase
(c) When IRR is equal to cost of capital, the price per share increases and dividend pay-out decreases
(d) When IRR is lower than cost of capital, the price per share increases and dividend pay-out decreases

20. If the financing requirements are to be executed through debt (relatively cheaper source of finance), then it would be preferable to distribute....,,,,,,
(a) More Dividend
(b) Less dividend
(c) No Dividend
(d) None of the above

Answer Key:

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

1. Need for cash can be categorized as any of these except
(a) Transaction
(b) Entertainment
(c) Speculative
(d) Precautionary

2. An organization carrying higher levels of inventory is most probably following which policy of working capital management
(a) Conservative
(b) Aggressive
(c) Moderate
(d) Opportunistic

3. Which of these components of Working Capital require consideration of Cash Cost
(a) Raw Material Inventory
(b) Receivables
(c) Work in Progress Inventory
(d) Trade Payables

4. Increase in which of the following shall reduce the net operating cycle
(a) Work in Process holding period
(b) Raw Material Storage period
(c) Receivables collection period
(d) Credit period allowed by Suppliers

5. Current Liabilities can be settled by
(a) Creation of a new current liability
(b) Use of Non-current assets
(c) Creation of Non-Current Liability
(d) Proceeds of Long-Term Investments

6. Operating in double shifts may not impact which of the below (in terms of units at least)
(a) Work in Process Inventory
(b) Raw Material Inventory
(c) Finished Goods Inventory
(d) Receivables

7. What is the relationship between the allowance for doubtful accounts and working capital
(a) When bad debts expense is recorded for the period, working capital decreases.
(b) When bad debts expense is recorded for the period, cash increases
(c) When an account is written off against the allowance, working capital decreases
(d) When an account is written off against the allowance, cash decreases

8. How can a company improve its accounts receivable turnover?
(a) Extend payment terms for customers
(b) Increase credit limits for customers
(c) Offer discounts for early payment
(d) All of the above

9. As per Miller-Orr cash management model, when cash balance reaches lower limit then
(a) It may be invested in securities
(b) Loan may be taken
(c) Some marketable securities may be liquidated
(d) Creditor payments should be put on hold

10. Gross Working Capital refers to
(a) Current Assets - Current Liabilities
(b) Current Liabilities - Current Assets
(c) Current Assets
(d) Current Liabilities

11. Strict credit policy with customers may not result in
(a) Faster Collections
(b) Decline in Sales
(c) Increase in Sales
(d) Lower Collection Period

12. Which of the following is not a determinant of working capital
(a) Nature of Business
(b) Target Profit
(c) Type of Product
(d) Credit Policy

13. Strict credit policy with customers may not result in
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(c) Receivables collection period
(d) Credit period allowed by Suppliers

16. All of these are methods of cash budgeting except
(a) Adjusted Balance Sheet Method
(b) Adjusted Income Method
(c) Receipts & Payment Method
(d) Taxable Income Method

17. How is the quick ratio different from the current ratio?
(a) The quick ratio includes inventory in its calculation, while the current ratio does not.
(b) The quick ratio excludes inventory from its calculation, while the current ratio includes it.
(c) The quick ratio measures a companys ability to pay long-term debts, while the current ratio measures its ability to pay short-term debts.
(d) The quick ratio measures a companys profitability, while the current ratio measures its liquidity.

18. Electronic funds transfer may eliminate most types of floats except
(a) Billing Float
(b) Mail Float
(c) Cheque Processing Float
(d) Bank Processing Float

19. Which of the following is not an example of current assets
(a) Accrued Income
(b) Cash & Bank
(c) Short term advances to creditors
(d) Bank Overdraft

20. An organization carrying higher levels of inventory is most probably following which policy of working capital management
(a) Conservative
(b) Aggressive
(c) Moderate
(d) Opportunistic

Answer Key:

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