

# Online Examinations (Even Sem/Part-I/Part-II Examinations 2020 - 2021)

Course Name - --Corporate Finance

Course Code - MBA207

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Answer all the questions. Each question carry one mark.

9. 1.Shareholder wealth in a firm is represented by:

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- the number of people employed in the firm
- the book value of the firm's assets less the book value of its liabilities
- the amount of salary paid to its employees.
- the market price per share of the firm's common stock.

10. 2.The long-run objective of financial management is to

*Mark only one oval.*

- maximize earnings per share.
- maximize the value of the firm's common stock.
- maximize return on investment.
- maximize market share.

11. 3.What are the earnings per share (EPS) for a company that earned Rs. 100,000 last year in after-tax profits, has 200,000 common shares outstanding and Rs. 1.2 million in retained earning at the year end?

*Mark only one oval.*

- Rs. 100,000
- Rs. 6.00
- Rs. 0.50
- Rs. 6.50

12. 4.The market price of a share of common stock is determined by

*Mark only one oval.*

- the board of directors of the firm.
- the stock exchange on which the stock is listed.
- the president of the company.
- individuals buying and selling the stock.

13. 5. \_\_\_\_\_ of a firm refers to the composition of its long-term funds and its capital structure.

*Mark only one oval.*

- Capitalisation
- Over-capitalisation
- Under-capitalisation
- Market capitalization

14. 6. In the \_\_\_\_\_, the future value of all cash inflow at the end of time horizon at a particular rate of interest is calculated.

*Mark only one oval.*

- Risk-free rate
- Compounding technique
- Discounting technique
- Risk Premium

15. 7. \_\_\_\_\_ is the price at which the bond is traded in the stock exchange

*Mark only one oval.*

- Redemption value
- Face value
- Market value
- Maturity value

16. 8. In \_\_\_\_\_ approach, the capital structure decision is relevant to the valuation of the firm.

*Mark only one oval.*

- Net income
- Net operating income
- Traditional
- Miller and Modigliani

17. 9. When \_\_\_\_\_ is greater than zero the project should be accepted.

*Mark only one oval.*

- Internal rate of return
- Profitability index
- Net present value
- Modified internal rate of return

18. 10. \_\_\_\_\_ refers to the amount invested in various components of current assets.

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- Temporary working capital
- Net working capital
- Gross working capital
- Permanent working capital

19. 11. \_\_\_\_\_ refers to a firm holding some cash to meet its routine expenses that are incurred in the ordinary course of business.

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- Speculative motive
- Transaction motive
- Precautionary motive
- Compensating motive

20. 12. \_\_\_\_\_ refers to the length of time allowed by a firm for its customers to make payment for their purchases.

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- Holding period
- Pay-back period
- Average collection period
- Credit period

21. 13. \_\_\_\_\_ and \_\_\_\_\_ are the two versions of goals of the financial management of the firm.

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- Profit maximisation, Wealth maximization
- Production maximisation, Sales maximisation
- Sales maximisation, Profit maximization
- Value maximisation, Wealth maximisation

22. 14. Consider the below mentioned statements: 1. A company is considered to be overcapitalised 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:

*Mark only one oval.*

- 1-True, 2-True  
 1-False, 2-True  
 1-False, 2-False  
 1-True, 2-False

23. 15. \_\_\_\_\_ and \_\_\_\_\_ carry a fixed rate of interest and are to be paid off irrespective of the firm's revenues.

*Mark only one oval.*

- Debentures, Dividends  
 Debentures, Bonds  
 Dividends, Bonds  
 Dividends, Treasury notes

24. 16. Credit policy of every company is largely influenced by \_\_\_\_\_ and \_\_\_\_\_.

*Mark only one oval.*

- Liquidity, accountability  
 Liquidity, profitability  
 Liability, profitability  
 Liability, liquidity

25. 17.The rate of interest offered by the fixed deposit scheme of a bank for 365 days and above is 12%. What will be the status of Rs. 20000, after two years if it is invested at this point of time?

*Mark only one oval.*

- Rs. 28032
- Rs. 24048
- Rs. 22056
- Rs. 25088

26. 18.How are earnings per share calculated?

*Mark only one oval.*

- Use the income statement to determine earnings after taxes (net income) and divide by the previous period's earnings after taxes. Then subtract 1 from the previously calculated value.
- Use the income statement to determine earnings after taxes (net income) and divide by the number of common shares outstanding.
- Use the income statement to determine earnings after taxes (net income) and divide by the number of common and preferred shares outstanding.
- Use the income statement to determine earnings after taxes (net income) and divide by the forecasted period's earnings after taxes. Then subtract 1 from the previously calculated value.

27. 19.Palo Alto Industries has a debt-to-equity ratio of 1.6 compared with the industry average of 1.4. This means that the company

*Mark only one oval.*

- will not experience any difficulty with its creditors.
- has less liquidity than other firms in the industry.
- will be viewed as having high creditworthiness.
- has greater than average financial risk when compared to other firms in its industry.

28. 20. A company can improve (lower) its debt-to-total assets ratio by doing which of the following?

*Mark only one oval.*

- Borrow more.
- Shift short-term to long-term debt.
- Shift long-term to short-term debt.
- Sell common stock.

29. 21. Debt-to-total assets (D/TA) ratio is .4. What is its debt-to-equity (D/E) ratio?

*Mark only one oval.*

- 0.2
- 0.6
- 0.667
- 0.333

30. 22. A firm's operating cycle is equal to its inventory turnover in days (ITD)

*Mark only one oval.*

- plus its receivable turnover in days (RTD).
- minus its RTD.
- plus its RTD minus its payable turnover in days (PTD).
- minus its RTD minus its PTD.

31. 23. Uses of funds include a (an):

*Mark only one oval.*

- decrease in cash.
- increase in any liability.
- increase in fixed assets.
- tax refund.

32. 24. Which of the following would be included in a cash estimation/ budget?

*Mark only one oval.*

- depreciation charges.
- dividends.
- goodwill.
- patent amortization.

33. 25. All of the following influence capital budgeting cash flows EXCEPT:

*Mark only one oval.*

- accelerated depreciation.
- salvage value.
- tax rate changes.
- method of project financing use

34. 26.A capital investment is one that

*Mark only one oval.*

- has the prospect of long-term benefits.
- has the prospect of short-term benefits.
- is only undertaken by large corporations.
- applies only to investment in fixed assets.

35. 27.A profitability index of .85 for a project means that:

*Mark only one oval.*

- the present value of benefits is 85% greater than the project's costs.
- the project's NPV is greater than zero.
- the project returns 85 cents in present value for each current dollar invested.
- the payback period is less than one year.

36. 28.Which of the following statements is correct?

*Mark only one oval.*

- If the NPV of a project is greater than 0, its PI will equal 0.
- If the IRR of a project is 0%, its NPV, using a discount rate,  $k$ , greater than 0, will be 0.
- If the PI of a project is less than 1, its NPV should be less than 0.
- If the IRR of a project is greater than the discount rate,  $k$ , its PI will be less than 1 and its NPV will be greater than 0.

37. 29. Two mutually exclusive investment proposals have "scale differences" (i.e., the cost of the projects differ). Ranking these projects on the basis of IRR, NPV, and PI methods give contradictory results.

*Mark only one oval.*

- will never
- will always
- may
- will generally

38. 30. Preferred shareholders' claims on assets and income of a firm come those of creditors those of common shareholders.

*Mark only one oval.*

- before; and also before
- after; but before
- after; and also after
- equal to; and equal to

39. 31. To increase a given present value, the discount rate should be adjusted

*Mark only one oval.*

- upward.
- downward.
- No change.
- constant.

40. 32. Which of the following would be consistent with a more aggressive approach to financing working capital?

*Mark only one oval.*

- Financing short-term needs with short-term funds.
- Financing permanent inventory buildup with long-term debt.
- Financing seasonal needs with short-term funds.
- Financing some long-term needs with short-term funds.

41. 33. Which of the following illustrates the use of a hedging (or matching) approach to financing?

*Mark only one oval.*

- Short-term assets financed with long-term liabilities.
- Permanent working capital financed with long-term liabilities.
- Short-term assets financed with equity.
- All assets financed with 50 percent equity, 50 percent long-term debt mixture.

42. 34. In deciding the appropriate level of current assets for the firm, management is confronted with

*Mark only one oval.*

- a trade-off between profitability and risk.
- a trade-off between liquidity and marketability.
- a trade-off between equity and debt.
- a trade-off between short-term versus long-term borrowing

43. 35.Spontaneous financing includes

*Mark only one oval.*

- accounts receivable.
- accounts payable.
- short-term loans.
- a line of credit.

44. 36.Permanent working capital

*Mark only one oval.*

- varies with seasonal needs.
- includes fixed assets.
- is the amount of current assets required to meet a firm's long-term minimum needs.
- includes accounts payable

45. 37.Marketable securities are primarily

*Mark only one oval.*

- short-term debt instruments.
- short-term equity securities.
- long-term debt instruments.
- long-term equity securities.

46. 38. Which would be an appropriate investment for temporarily idle corporate cash that will be used to pay quarterly dividends three months from now?

*Mark only one oval.*

- A long-term AAA-rated corporate bond with a current annual yield of 9.4 percent.
- A 30-year Treasury bond with a current annual yield of 8.7 percent.
- Ninety-day commercial paper with a current annual yield of 6.2 percent.
- Common stock that has been appreciating in price 8 percent annually, on average, and paying a quarterly dividend that is the equivalent of a 5 percent annual yield.

47. 39. The basic requirement for a firm's marketable securities.

*Mark only one oval.*

- Safety
- Yield
- Marketability
- All of the above.

48. 40. A firm's inventory turnover (IT) is 5 times on a cost of goods sold (COGS) of \$800,000. If the IT is improved to 8 times while the COGS remains the same, a substantial amount of funds is released from or additionally invested in inventory. In fact,

*Mark only one oval.*

- \$160,000 is released.
- \$100,000 is additionally invested.
- \$60,000 is additionally invested.
- \$60,000 is released.

49. 41.Costs of not carrying enough inventory include:

*Mark only one oval.*

- lost sales.
- customer disappointment.
- possible worker layoffs.
- all of these.

50. 42.Increasing the credit period from 30 to 60 days, in response to a similar action taken by all of our competitors, would likely result in:

*Mark only one oval.*

- an increase in the average collection period.
- a decrease in bad debt losses.
- an increase in sales.
- higher profits.

51. 43.The credit policy of Spurling Products is "1.5/10, net 35." At present 30% of the customers take the discount, 62% pay within the net period, and the rest pay within 45 days of invoice. What would receivables be if all customers took the cash discount?

*Mark only one oval.*

- Lower than the present level.
- No change from the present level.
- Higher than the present level.
- Unable to determine without more information.

52. 44.A single, overall cost of capital is often used to evaluate projects because:

*Mark only one oval.*

- it avoids the problem of computing the required rate of return for each investment proposal.
- it is the only way to measure a firm's required return.
- it acknowledges that most new investment projects have about the same degree of risk.
- it acknowledges that most new investment projects offer about the same expected return

53. 45.In calculating the proportional amount of equity financing employed by a firm, we should use:

*Mark only one oval.*

- the common stock equity account on the firm's balance sheet.
- the sum of common stock and preferred stock on the balance sheet.
- the book value of the firm.
- the current market price per share of common stock times the number of shares outstanding.

54. 46.In calculating the costs of the individual components of a firm's financing, the corporate tax rate is important to which of the following component cost formulas?

*Mark only one oval.*

- common stock.
- debt.
- preferred stock.
- none of the above.

55. 47.The common stock of a company must provide a higher expected return than the debt of the same company because

*Mark only one oval.*

- there is less demand for stock than for bonds.
- there is greater demand for stock than for bonds.
- there is more systematic risk involved for the common stock.
- there is a market premium required for bonds.

56. 48.Market values are often used in computing the weighted average cost of capital because

*Mark only one oval.*

- this is the simplest way to do the calculation.
- this is consistent with the goal of maximizing shareholder value.
- this is required in the U.S. by the Securities and Exchange Commission.
- this is a very common mistake.

57. 49.Lei-Feng, Inc.'s \$100 par value preferred stock just paid its \$10 per share annual dividend. The preferred stock has a current market price of \$96 a share. The firm's marginal tax rate (combined federal and state) is 40 percent, and the firm plans to maintain its current capital structure relationship into the future. The component cost of preferred stock to Lei-Feng, Inc. would be closest to .

*Mark only one oval.*

- 6 percent
- 6.25 percent
- 10 percent
- 10.4 percent

58. 50.The traditional approach towards the valuation of a company assumes:

*Mark only one oval.*

- that the overall capitalization rate holds constant with changes in financial leverage.
- that there is an optimum capital structure.
- that total risk is not altered by changes in the capital structure.
- that markets are perfect.

59. 51.What is the value of the tax shield if the value of the firm is \$5 million, its value if unlevered would be \$4.78 million, and the present value of bankruptcy and agency costs is \$360,000?

*Mark only one oval.*

- 140000
- 220000
- 360000
- 580000

60. 52.Reserves & Surplus are which form of financing?

*Mark only one oval.*

- Security Financing
- Internal Financing
- Loans Financing
- International Financing

61. 53.What are the different options other than cash used for distributing profits to shareholders?

*Mark only one oval.*

- Bonus shares
- Stock split
- Stock purchase
- All of these

62. 54.In Walter model formula D stands for

*Mark only one oval.*

- Dividend per share
- Direct Dividend
- Dividend Earning
- None of these

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

*Mark only one oval.*

- valued relationship
- economic relationship
- direct relationship
- inverse relationship

64. 56. An uncovered cost at start of year is divided by full cash flow during recovery year then added in prior years to full recovery for calculating

*Mark only one oval.*

- original period
- investment period
- payback period
- forecasted period

65. 57. Modified rate of return and modified internal rate of return with exceed cost of capital if net present value is

*Mark only one oval.*

- positive
- negative
- zero
- one

66. 58. In capital budgeting, a negative net present value results in

*Mark only one oval.*

- zero economic value added
- percent economic value added
- negative economic value added
- positive economic value added

67. 59. Project whose cash flows are sufficient to repay capital invested for rate of return then net present value will be

*Mark only one oval.*

- negative
- zero
- positive
- independent

68. 60. Situation in which firm limits expenditures on capital is classified as

*Mark only one oval.*

- optimal rationing
- capital rationing
- marginal rationing
- transaction rationing

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