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

Course Name - –Financial Management
Course Code - BBAC403

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Answer all the questions. Each question carry one mark.

9. 1. A capital budgeting technique which does not require the computation of cost of capital for decision making purposes is,

Mark only one oval.

- Net Present Value Method
- Internal Rate of Return Method
- Profitability Index Method
- Payback Period Method

10. 2. If two alternative proposals are such that the acceptance of one shall exclude the possibility of the acceptance of another then such decision making will lead to

Mark only one oval.

- Mutually Exclusive Project
- Accept Reject Decision
- Contingent Decision
- None of the above

11. 3. If the cut off rate is greater then IRR, we may

Mark only one oval.

- Accept the proposal
- Reject the proposal
- Be neutral about it
- None of the above

12. 4. Under Net present value criterion, a project is approved if

Mark only one oval.

- NPV is positive
- Funds are unlimited
- NPV is Zero
- None of the above

13. 5. What does financial leverage measure?

Mark only one oval.

- No change with EBIT and EPS
- The sensibility of EBIT with % change with respect to output
- The sensibility of EPS with % change in the EBIT level
- Percent variation in the level of production

14. 6. Finance Function comprises

Mark only one oval.

- Safe custody of funds only
- Expenditure of funds only
- Procurement of finance only
- Procurement & effective use of funds

15. 7. Time value of money indicates that

Mark only one oval.

- A unit of money obtained today is worth more than a unit of money obtained in future
- A unit of money obtained today is worth less than a unit of money obtained in future
- There is no difference in the value of money obtained today and tomorrow
- None of the above

16. 8. Financial structure refers to

Mark only one oval.

- Short-term resources.
- All the financial resources.
- Long-term resources.
- All of these.

17. 9. Which of the following is a specific risk factor?

Mark only one oval.

- Market Risk
- Interest Rate Risk
- Inflation Risk
- Financial Risk

18. 10. The major benefit of diversification is to___________.

Mark only one oval.

- Increase the expected return
- Increase the size of the investment portfolio.
- Reduce brokerage commissions.
- Reduce the expected risk.

19. 11. _____________ is the minimum required rate of earnings or the cut off rate of capital expenditure.

Mark only one oval.

- Cost of capital.
- Working capital
- Equity capital.
- None of the above.

20. 12._________________ is a long term planning for financing proposed capital outlay

Mark only one oval.

- Capital Budgeting
- Budgeting
- Cash Budget
- Sales Budge

21. 13. Which of the following is the first step in capital budgeting process?

Mark only one oval.

- Final approval
- Screening the proposal
- Implementing proposal
- Identification of investment proposal

22. 14. The term _______________ refers to the period in which the project will generate the necessary cash flow to recoup the initial investment.

Mark only one oval.

- Internal return
- Payback period
- Discounting return
- Accounting return

23. 15. To increase the given present value, the discounted rate should be adjusted

Mark only one oval.

- Upward
- Downward
- Constant
- None of the above

24. 16. ._______________ is one that maximizes value of business, minimizes overall cost of capital, that is flexible, simple and futuristic, that ensures adequate control on affairs of business by the owners and so on.

Mark only one oval.

- Minimal Capital Structure
- Moderate Capital Structure
- Optimal Capital Structure
- Deficit Capital Structure

25. 17. The only feasible purpose of financial management is

Mark only one oval.

- Wealth Maximization
- Sales Maximization
- Profit Maximization
- Assets maximization

26. 18. Agency cost consists of

Mark only one oval.

- Binding
- Monitoring
- Opportunity and structure cost
- All of the above

27. 19. Time value of money supports the comparison of cash flows recorded at different time period by

Mark only one oval.

- Discounting all cash flows to a common point of time
- Compounding all cash flows to a common point of time
- Using either a or b
- None of the above

28. 20. Risk of two securities with different expected return can be compared with:

Mark only one oval.

- Coefficient of variation
- Standard deviation of securities
- Variance of Securities
- None of the above

29. 21. 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

30. 22. The focal point of financial management in a firm is:

Mark only one oval.

- the number and types of products or services provided by the firm
- the minimization of the amount of taxes paid by the firm.
- the creation of value for shareholders
- the dollars profits earned by the firm

31. 23. ______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

32. 24. _________ 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

33. 25. ____________ enhance the market value of shares and therefore equity capital is not free of cost.

Mark only one oval.

- Face value
- Dividends
- Redemption value
- Book value

34. 26. 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

35. 27. ________ refers to the amount invested in various components of current assets.

Mark only one oval.

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

36. 28. ___________ is the length of time between the firm’s actual cash expenditure and its own cash receipt.

Mark only one oval.

- Net operating cycle
- Cash conversion cycle
- Working capital cycle
- Gross operating cycle

37. 29.______________ refers to the length of time allowed by a firm for its customers to make payment for their purchase

Mark only one oval.

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

38. 30. Amounts due from customers when goods are sold on credit are called ____________.

Mark only one oval.

- Trade balance
- Trade debits
- Trade discount
- Trade off

39. 31. ___________ 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

40. 32. Consider the below mentioned statements: 1. A debt-equity ratio of 2:1 indicates that for every 1 unit of equity, the company can raise 2 units of debt. 2. The cost of floating a debt is greater than the cost of floating an equity issue. State True or False:

Mark only one oval.

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

41. 33. XYZ is an oil based business company, which does not have adequate working capital. It fails to meet its current obligation, which leads to bankruptcy. Identify the type of decision involved to prevent risk of bankruptcy

Mark only one oval.

- Investment decision
- Dividend decision
- Liquidity decision
- Finance decision

42. 34. 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.

43. 35. Which of the following wouldNOT improve the current ratio?

Mark only one oval.

- Borrow short term to finance additional fixed assets
- Issue long-term debt to buy inventory.
- Sell common stock to reduce current liabilities.
- Sell fixed assets to reduce accounts payable

44. 36. Which of the following statements (in general) is correct?

Mark only one oval.

- A low receivables turnover is desirable
- The lower the total debt-to-equity ratio, the lower the financial risk for a firm.
- An increase in net profit margin with no change in sales or assets means a poor ROI
- The higher the tax rate for a firm, the lower the interest coverage ratio

45. 37.A profitability index of .85 for a project means that:

Mark only one oval.

- project will be accepted
- project will be rejected
- neutral
- none of the above

46. 38. Preferred shareholders' claims on assets and income of a firm come_____those of creditor_______those of common shareholders.

Mark only one oval.

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

47. 39. Net working capital refers to

Mark only one oval.

- total assets minus fixed assets
- current assets minus current liabilities
- current assets minus inventories
- current assets

48. 40. Discounting is the process of calculating ______

Mark only one oval.

- Present value from future cash flow
- Future value from present cash flow
- furutre value from fixed installment income
- none of the above

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. The term "capital structure" refers to:

Mark only one oval.

- long-term debt, preferred stock, and common stock equity
- current assets and current liabilities
- total assets minus liabilities
- shareholders' equity

51. 43. Reserves & Surplus are which form of financing?

Mark only one oval.

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

52. 44. Listed companies can be valued at

Mark only one oval.

- Book Value
- Market value
- Salvage value
- Liquidation value

53. 45. CAPM stands for

Mark only one oval.

- Capital Asset Pricing Model
- Capital Arbitaration Model
- Capital Asset Product Model
- none of the above

54. 46. The addition of all current assets investment is known as...

Mark only one oval.

- Net Working Capital
- Gross Working capital
- Temporary Working Capital
- All of these

55. 47.What is the difference between the current ratio and the quick ratio?

Mark only one oval.

- The current ratio includes inventories and the quick ratio does not
- The current ratio does not include inventories and the quick ratio does
- The current ratio includes physical capital and the quick ratio does not
- The current ratio does not include physical capital and the quick ratio does

56. 48. ______________ 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

57. 49. The shareholder value maximisation model holds that the primary goal of the firm is to maximise its:

Mark only one oval.

- Accounting profit
- Liquidity
- Market value
- Working capital.

58. 50. Wealth maximisation approach is based on the concept of:

Mark only one oval.

- Cost benefit analysis
- Cash flow approach
- Time value of money
- All of the above

59. 51. Which of the following is not an element of financial management?

Mark only one oval.

- Allocation of resources
- Financial Planning
- Financial Decision-making
- Financial control.

60. 52. Financial Management is mainly concerned with the-

Mark only one oval.

- Acquiring and developing assets to forfeit its overall benefit
- Acquiring, financing and managing assets to accomplish the overall goal of a business enterprise.
- Efficient management of the business.
- Sole objective of profit maximisation.

61. 53. Which of the following need not be followed by the finance manager for measuring and maximising shareholders' wealth?

Mark only one oval.

- Accounting profit analysis.
- Cash Flow approach.
- Cost benefit analysis
- Application of time value of money

62. 54. Which of the following sources of funds is related to Implicit Cost of Capital?

Mark only one oval.

- Equity Share Capital,
- Preference Share Capital,
- Debentures,
- Retained earnings

63. 55.Which of the following cost of capital require to adjust tax?

Mark only one oval.

- Cost of Equity Shares
- Cost of Preference Shares,
- Cost of Debentures
- Cost of Retained Earnings.

64. 56. What is the overall (weighted average) cost of capital when the firm has Rs 20 crore in long-term debt, 4 crore in preferred stock, and Rs 16 crore inequity shares. The before-tax cost for debt, preferred stock, and equity capital are 8%, 9%, and 15%, respectively. Assume a 50% tax rate.

Mark only one oval.

- 7.60%
- 6.90%
- 7.30%
- 8.9%

65. 57. Marginal Cost of capital is the cost of:

Mark only one oval.

- Additional Revenue
- Additional Funds,
- Additional Interests
- None of the above.

66. 58. If the cut off rate of a project is greater than IRR, we may

Mark only one oval.

- Accept the proposal
- Reject the proposal
- Be neutral about it
- Wait for the IRR to increase and match the cut off rate.

67. 59. Given Operating fixed costs Rs 20,000 Sales Rs.1,00,000 P/ V ratio 40% The operating leverage is:

Mark only one oval.

- 2.00
- 2.50
- 2.67
- 2.47

68. 60. Financial Leverage is calculated as:

Mark only one oval.

- EBIT ÷ Contribution
- EBIT ÷ PBT
- EBIT ÷ Sales
- EBIT ÷ Variables Cost