BRAINWARE UNIVERSITY

Term End Examination 2020 - 21

Programme – Bachelor of Commerce (Honours) in Banking & Financial Accounting

Course Name – Fundamentals of Financial Management

Course Code - BCM502

Semester / Year - Semester V

Time allotted : 85 Minutes Full Marks : 70

[The figure in the margin indicates full marks. Candidates are required to give their answers in their own words as far as practicable.]

Group-A

(Multiple Choice Type Question) 1 x 70=70

1. *(Answer any Seventy)*

(i) Investment is the ______

a) Net addition made to person's capital stock
b) Person's commitment to buy a flat or house
c) Employment of funds on assets to earn returns
d) Employment of funds on goods and services that are used in production process

(ii) Following is (are) the component(s) of risk management

a) Risk Assessment
b) Risk Control
c) Risk Ranking
d) All of these

(iii) Pre buy/ sell study does not involve

a) Plant location
b) Plant capacity
c) Raw materials
d) Monetary policy

(iv) The purpose of soft loan scheme is to encourage people to ___________.

a) Up-grade plant and machinery.
b) replace plant and machinery.
c) renovate of plant and machinery
d) All of these

(v) Which of the following is a function of Banks

a) Extension of project capital.
b) Discounting of bills.

c) Providing factoring services
d) All of these

(vi) Commercial policy does include

a) Reduced security margin
b) Octroi exemptions
c) Capital investment subsidy
d) Sales tax incentives for business

(vii) This requires proper review and reconsideration of the selected alternative before implementing it.

a) Developing possible alternatives
b) Selecting the best alternative
c) Checking the decision
d) Exploring the developed alternatives

(viii) A commercial banker would prefer a ____________ debt-equity ratio over the years as it indicates financial strength of a unit.

a) Declining.
b) Increasing.
c) Stable
d) Fluctuating.

(ix) IFCI funds

a) Industrial finance corporation of India, money
b) Institutional finance corporation of India, projects
c) Industrial funding corporation of India.
d) Indian finance corporation and institution, reports

(x) IFCI has been converted into a________.

a) joint stock company
b) co-operative society.
c) partnership firm
d) sole proprietorship

(xi) The process of preparing an inventory of skills needed for effective implementation of the investment is known as called as

a) Economic viability.
b) Financial feasibility.
c) Technical feasibility
d) Managerial competence

(xii) Large investment is made in fixed assets, the project will be termed as

a) Capital Intensive.
b) Labour Intensive.
c) Product Intensive.
d) Market Intensive

(xiii) The objective of wealth maximization takes into account

a) Amount of returns expected
b) Timing of anticipated returns
c) Risk associated with uncertainty of returns
d) All of these

(xiv) The profit of an undertaking is affected by

a) Selling price of the products
b) Volume of sales
c) Variable cost per unit and total fixed cost
d) All of these

(xv) Finance Function comprises

a) Safe custody of funds only
b) Safe custody of funds only
c) Procurement of finance only
d) Procurement & effective use of funds

(xvi) Agency cost consists of

a) Binding
b) Monitoring
c) Opportunity and structure cost
d) All of these

(xvii) The term current asset doesn't cover

a) Car
b) Debtors
c) Stock
d) Prepaid expenses

(xviii) The form of balance sheet is

a) Vertical
b) Horizontal
c) Horizontal and vertical
d) Horizontal or vertical

(xix) The term 'Financial Statement' covers

a) Profit & Loss Statement
b) Balance sheet and Profit & Loss

Statement appropriation account

c) Profit & Loss Statement and Balance sheet

d) none of these

(xx) Which of the following are techniques, tools or methods of analysis and interpretation of financial statements

a) Ratio Analysis

b) Average Analysis

c) Trend Analysis

d) All of these

(xxi) Comparison of financial statements highlights the trend of the _________ of the business.

a) Financial position

b) Performance

c) Profitability

d) All of these

(xxii) Which of the following statements are true A) Comparative financial statement is an example of horizontal analysis. B) Trend Analysis is an example of vertical analysis. C) Cash flow analysis is an example of horizontal analysis.

a) Both Comparative financial statement is an example of horizontal analysis & Trend Analysis is an example of vertical analysis.

b) Both Comparative financial statement is an example of horizontal analysis & Cash flow analysis is an example of horizontal analysis.

c) Both Trend Analysis is an example of vertical analysis & Cash flow analysis is an example of horizontal analysis.

d) Comparative financial statement is an example of horizontal analysis,Trend Analysis is an example of vertical analysis & Cash flow analysis is an example of horizontal analysis.

(xxiii) Which of the following statements are true about Horizontal Analysis A) It does not examine the periodical trend. B) It is useful for long-term analysis. C) It is useful for long –term planning.

a) Both It does not examine the periodical trend & It is useful for long-term analysis.

b) Both It does not examine the periodical trend & It is useful for long –term planning.

c) Both It is useful for long-term analysis & It is useful for long –term planning.

d) It does not examine the periodical trend, It is useful for long-term analysis & It is useful for long –term planning.

(xxiv) Vertical analysis is also known as

a) Static analysis

b) Structural analysis

c) Cross-sectional analysis

d) All of these

(xxv) ARR does not include

a) IRR

b) EBIT

c) Investment

d) All of these

(xxvi) Which of the following is not a part of Working Capital

a) Raw Materials

b) Buildings

c) Operating Expenses

d) Work-in-Progress

(xxvii) Investment whose cash flows are sufficient to repay capital invested for rate of return then net present value will be

a) Independent

b) Negative

c) Positive

d) Zero

(xxviii) Which one is a disadvantage of ARR

a) Quick to calculate

b) Uses accounting returns

c) Cash flow ignored

d) User friendly

(xxix) Which one of the following is not a part of PV

a) NPV

b) PI

c) Payback

d) IRR

(xxx) Balance sheet forecasting uses

a) Financial projection

b) NPV

c) ARR

d) MIRR

(xxxi) Investment Evaluation Criteria does not involve one of the following.

a) Cash Flow Estimation

b) Competitor Analysis

c) Estimation of Required rate of return

d) Application of Decision rule for the choice

(xxxii) This is not True about Payback method.

a) Simple

b) Cost Effective

c) Not easy to calculate

d) Insight into liquidity of the project

(xxxiii) Accounting Rate of Return (ARR) is accepted only when

a) ARR < Minimum Rate

b) ARR > Minimum Rate

c) ARR = Minimum Rate

d) None of these

(xxxiv) Accounting Rate of Return (ARR) uses _______ income and investment.

a) Total

b) Minimum

c) Maximum

d) Average

(xxxv) The 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 these

(xxxvi) A project is accepted when

a) Net present value is greater than zero

b) Internal Rate of Return will be greater than cost of capital

c) Profitability index will be greater than unity

d) Any of these

(xxxvii) 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

(xxxviii) 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

(xxxix) If the profitability index of a project is 0.75, it means

a) the NPV of the project is greater than zero
b) the project's cost is less than the present value of its cash flows
c) the NPV of the project is greater than 1
d) the project returns 75 cents in present value for each dollar invested in it

(xl) If two alternative investments are compared using incremental cost approach, the difference between the net present values of two alternatives will be

a) greater than the difference obtained using total cost approach
b) less than the difference obtained using total cost approach
c) the same as the difference obtained using total cost approach
d) indeterminable

(xli) ARR includes

a) IRR
b) EBIT
c) Investment
d) All of these

(xlii) Variability for expected returns for projects is classified as

a) Expected risk
b) Stand-alone risk
c) Variable risk
d) Returning risk

(xliii) An interest rate which is paid by firm as soon as it issues debt is classified as pre-tax

a) Term structure	b) Market premium

c) Risk premium	d) Cost of debt

(xliv) In mutually exclusive projects, project which is selected for comparison with others must have

a) Higher net present value	b) Lower net present value

c) Zero net present value	d) All of these

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

a) Valued relationship	b) Economic relationship

c) Direct relationship	d) Inverse relationship

(xlvi) In capital budgeting, an internal rate of return of project is classified as its

a) External rate of return	b) Internal rate of return

c) Positive rate of return	d) Negative rate of return

(xlvii) In independent projects evaluation, results of internal rate of return and net present value lead to

a) Cash flow decision	b) Cost decision

c) Same decisions	d) Different decisions

(xlviii) Financial feasibility analysis can be done by comparing _______________ with the estimated sales figure.

a) Cash flow statement	b) Balance sheet

c) Break-even point	d) profit and loss statement

(xlix) In the initial stage of the project the probability of profiting from the project is

a) Zero	b) High

c) Low d) All of these

(l) Risk of two securities with different expected return can be compared with:

a) Coefficient of variation b) Standard deviation of securities

c) Variance of Securities d) None of these

(li) In weighted average cost of capital, a company can affect its capital cost through

a) Policy of capital structure b) Policy of dividends

c) Policy of investment d) All of these

(lii) ___________ on capital is called 'Cost of capital

a) Lower expected return b) Normally expected return

c) Higher expected return d) None of these

(liii) Equity shareholders are called

a) Owners of the company b) Partners of the company

c) Executives of the company d) Guardian of the company

(liv) The term 'redeemable' is used for

a) Preference shares b) Commercial paper

c) Equity shares d) Public deposits

(lv) Internal sources of capital are those that are

a) generated through outsiders such as suppliers b) generated through loans from commercial banks

c) generated through issue of shares d) generated within the business

(lvi) _________ of a firm refers to the composition of its long term funds and its capital structure

a) Capitalization b) Over capitalization

c) Under capitalization

d) Market capitalization

(lvii) The cost of capital is used as a discount rate because

a) It is an indication of how much the firm is earning overall

b) As long as the cost of capital is earned, the common stock value of the firm will be maintained

c) It is comparable to the prevailing market interest rates

d) Returns below the cost of capital will cover all fixed costs associated with capital and provide an excess return to shareholders

(lviii) All but one of the following is an estimate of the component cost of equity when calculating the weighted average cost of capital

a) CAPM

b) Yield to maturity on similar company stock

c) Market equity premium over a long period of time

d) Using the constant growth dividend model

(lix) The traditional approach towards the valuation of a company assumes

a) that the overall capitalization rate holds constant with changes in financial leverage

b) that there is an optimum capital structure

c) that total risk is not altered by changes in the capital structure

d) that markets are perfect

(lx) According to the concept of financial signaling, management behavior results in new debt issues being regarded as " _____ news" by investors

a) Good

b) Bad

c) Non-event

d) Risk-neutral

(lxi) An EBIT-EPS indifference analysis chart is used for

a) evaluating the effects of business risk on EPS

b) examining EPS results for alternative financing plans at varying EBIT levels

c) determining the impact of a change in

d) showing the changes in EPS quality over sales on EBIT | time

(lxii) EBIT is usually the same thing as

a) EBIT is usually the same thing as | b) earnings before taxes

c) net income | d) operating profit

(lxiii) The cost of equity capital is all of the following EXCEPT

a) the minimum rate that a firm should earn on the equity-financed part of an investment

b) a return on the equity-financed portion of an investment that, at worst, leaves the market price of the stock unchanged

c) by far the most difficult component cost to estimate

d) generally lower than the before-tax cost of debt

(lxiv) 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

a) common stock | b) debt

c) preferred stock | d) none of these

(lxv) The common stock of a company must provide a higher expected return than the debt of the same company because

a) there is less demand for stock than for bonds

b) there is greater demand for stock than for bonds

c) there is more systematic risk involved for the common stock

d) there is a market premium required for bonds

(lxvi) Market values are often used in computing the weighted average cost of capital because

a) this is the simplest way to do the calculation

b) this is consistent with the goal of maximizing shareholder value.

c) his is required in India. by the SEBI

d) this is a very common mistake

(lxvii) The date by which a shareholder must be recorded as the share owner in order to receive a declared dividend is called the

a) ex-rights date
b) ex-dividend date
c) date of record
d) date of payment

(lxviii) The observable fact that stocks attract particular investors based dividend yield and the resulting tax effects is called the

a) information content effect
b) clientele effect
c) efficient markets hypothesis
d) distribution effect

(lxix) The target payout ratio is

a) a firm's preferred rate of dividend growth
b) the amount of dividend required to maintain a constant debt-equity ratio
c) the inverse of a firm's equity multiplier
d) a firm's long-term desired dividend-to-earnings ratio

(lxx) A payment made by a firm made in the form of new shares of stock, rather than cash, is called a

a) cash dividend
b) stock dividend
c) special dividend
d) liquidating dividend