



BRAINWARE UNIVERSITY

Term End Examination 2020 - 21

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

Course Name – Working Capital Financing and Reporting

Course Code - BCM505B

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) Firms which are capital intensive rely on _____.

- | | |
|--------------------|----------------------|
| a) Equity | b) Debt |
| c) Short term debt | d) Retained earnings |

(ii) What are the different types of underlying assets?

- | | |
|------------------|-----------------|
| a) Stocks | b) Bonds |
| c) Stock indices | d) All of these |

(iii) The amount of current assets that varies with seasonal requirements is referred to as _____ working capital

- | | |
|--------------|----------|
| a) permanent | b) net |
| c) temporary | d) gross |

(iv) Having defined working capital as current assets, it can be further classified according to _____.

- | | |
|------------------------------|--|
| a) financing method and time | b) rate of return and financing method |
| c) time and rate of return | d) components and time |

(v) How can a firm provide a margin of safety if it cannot borrow on short notice to meet its needs?

- | | |
|---|-------------------------------------|
| a) Maintain a low level of current assets | b) Shorten the maturity schedule of |
|---|-------------------------------------|

- (especially cash and marketable securities financing
c) Increasing the level of fixed assets d) Lengthening the maturity schedule of
(especially plant and equipment financing

(vi) To financial analysts, "net working capital" means the same thing as

- _____.
- a) total assets b) fixed assets
c) current assets d) current assets minus current liabilities.

(vii) Working Capital Turnover measures the relationship of Working Capital with:

- a) Fixed Assets b) Sales
c) Purchases d) Stock

(viii) Marketable securities are primarily

- a) Equity shares b) Preference shares
c) Fixed deposits with companies d) Short-term debt investments

(ix) The tools of treasury management does not include

- a) Foreign Exchange Management b) Cash Management
c) Receivable Management d) Risk Management

(x) The term 'EVA' is used for:

- a) Extra Value Analysis, b) Economic Value Added
c) Expected Value Analysis d) Engineering Value Analysis.

(xi) In Current Ratio, Current Assets are compared with:

- a) Current Profit, b) Current Liabilities
c) Fixed Assets d) Equity Share Capital.

(xii) Which of the following statements is correct?

- a) A Higher Receivable Turnover is not desirable
- b) Interest Coverage Ratio depends upon Tax Rate,
- c) Increase in Net Profit Ratio means increase in Sales
- d) Lower Debt-Equity Ratio means lower Financial Risk.

(xiii) Debt to Total Assets of a firm is .2. The Debt to Equity ratio would be:

- a) 0.8
- b) 0.25
- c) 1
- d) 0.75

(xiv) In Inventory Turnover calculation, what is taken in the numerator?

- a) Sales,
- b) Cost of Goods Sold
- c) Opening Stock,
- d) Closing Stock.

(xv) Cheques deposited in bank may not be available for immediate use due to

- a) Payment Float
- b) Receipt Float
- c) Net Float
- d) Playing the Float

(xvi) Difference between the bank balance as per Cash Book and Pass Book may be due to:

- a) Overdraft
- b) Float
- c) Factoring
- d) None of these

(xvii) The Transaction Motive for holding cash is for

- a) Safety Cushion
- b) Daily Operations
- c) Purchase of Assets
- d) Payment of Dividends

(xviii) Which of the following is not an objective of cash management ?

- a) Maximization of cash balance
- b) Minimization of cash balance
- c) Optimization of cash balance
- d) Zero cash balance

(xix) Which of the following is not true of cash budget ?

- a) Cash budget indicates timings of short-term borrowing,
- b) Cash budget is based on accrual concept
- c) Cash budget is based on cash flow concept
- d) Repayment of principal amount of loan is shown in cash budget

(xx) Baumol's Model of Cash Management attempts to:

- a) Minimise the holding cost
- b) Minimization of transaction cost
- c) Minimization of total cost
- d) Minimization of cash balance

(xxi) 5Cs of the credit does not include

- a) Collateral
- b) Character
- c) Conditions
- d) None of these

(xxii) Which of the following is not an element of credit policy?

- a) Credit Terms
- b) Collection Policy
- c) Cash Discount Terms
- d) Sales Price

(xxiii) Bad debt cost is not borne by factor in case of

- a) Pure Factoring
- b) Without Recourse Factoring
- c) With Recourse Factoring
- d) None of these

(xxiv) Which of the following is not a technique of receivables Management?

- a) Funds Flow Analysis
- b) Ageing Schedule
- c) Days sales outstanding
- d) Collection Matrix

(xxv) Which of the following is not a part of credit policy?

- a) Collection Effort
- b) Cash Discount
- c) Credit Standard
- d) Paying Practices of debtors

(xxvi) Credit Policy of a firm should involve a trade-off between increased

- a) Sales and Increased Profit
- b) Profit and Increased Costs of

Receivables

c) Sales and Cost of goods sold

d) None of these

(xxvii) Out of the following, what is not true in respect of factoring?

a) Continuous Arrangement between Factor and Seller, b) Sale of Receivables to the factor and Seller,

c) Factor provides cost free finance to seller d) None of these

(xxviii) Payment to creditors is a manifestation of cash held for:

a) Transaction Motive

b) Precautionary Motive

c) Speculative Motive

d) All of these

(xxix) If the closing balance of receivables is less than the opening balance for a month then which one is true out of

a) Collections > Current Purchases

b) Collections > Current Sales

c) Collections < Current Purchases

d) Collections < Current Sales

(xxx) Securitization is related to conversion of

a) Receivables

b) Stock

c) Investments

d) Creditors

(xxxix) 80% of sales of 10,00,000 of a firm are on credit. It has a Receivable Turnover of 8. What is the Average collection period (360 days a year) and Average Debtors of the firm?

a) 45 days and 1,00,000

b) 360 days and 1,00,000

c) 45 days and 8,00,000

d) 360 days and 1,25,000

(xxxii) In response to market expectations, the credit period has been increased from 45 days to 60 days. This would result in

a) Decrease in Sales,

b) Decrease in Debtors

c) Increase in Bad Debts

d) Increase in Average Collection Period

(xxxiii) Cash Discount term 3/15, net 40 means

- a) 3% Discount if payment in 15 days, otherwise full payment in 40 days
- b) 15% Discount if payment in 3 days, otherwise full payment 40 days
- c) 3% Interest if payment made in 40 days and 15%, interest thereafter
- d) None of these

(xxxiv) If cash discount is offered to customers, then which of the following would increase?

- a) Sales
- b) Debtors
- c) Debt collection period
- d) All of these

(xxxv) ABC Analysis is used in

- a) Inventory Management
- b) Receivables Management
- c) Accounting Policies
- d) Corporate Governance

(xxxvi) If no information is available, the General Rule for valuation of stock for balance sheet is

- a) Replacement Cost
- b) Realizable Value
- c) Historical Cost
- d) Standard Cost

(xxxvii) In ABC inventory management system, class A items may require

- a) Higher Safety Stock
- b) Frequent Deliveries
- c) Periodic Inventory system
- d) Updating of inventory records

(xxxviii) Use of safety stock by a firm would

- a) Increase Inventory Cost
- b) Decrease Inventory Cost
- c) No effect on cost
- d) None of these

(xxxix) Which of the following is true for a company which uses continuous review inventory system

- a) Order Interval is fixed,
- b) Order Interval varies

c) Order Quantity is fixed

d) Both Order intervals and order quantity are fixed

(xl) EOQ determines the order size when

a) Total Order cost is Minimum

b) Total Number of order is least

c) Total inventory costs are minimum,

d) None of these

(xli) ABC Analysis is useful for analyzing the inventories

a) Based on their Quality

b) Based on their Usage and value

c) Based on Physical Volume

d) All of these

(xlii) Which of the following is not included in cost of inventory?

a) Purchase cost

b) Transport in Cost,

c) Import Duty,

d) Selling Costs

(xliii) Cost of not carrying sufficient inventory is known as

a) Carrying Cost

b) Holding Cost

c) Total Cost

d) Stock-out Cost

(xliv) Which of the following is not a benefit of carrying inventories

a) Reduction in ordering cost

b) Avoiding lost sales

c) Reducing carrying cost

d) Avoiding Production Shortages

(xlv) A firm has inventory turnover of 6 and cost of goods sold is Rs.750000.

With Better inventory management, the inventory turnover is increased to 10.

This would result in:

a) Increase in inventory by 50,000,

b) Decrease in inventory by Rs.50000

c) Decrease in cost of goods sold,

d) Increase in cost of goods sold

(xlvi) Cash discount terms offered by trade creditors never be accepted because

a) Benefit in very small

b) Cost is very high

- c) No sense to pay earlier d) None of these

(xlvi) What are people who buy or sell in the market to make profits called?

- a) Hedgers b) Speculators
c) Arbitrageurs d) None of these

(xlviii) Under a conservative financing policy a firm would use long-term financing to finance some of the temporary current assets. What should the firm do when a "dip" in temporary current assets causes total assets to fall below the total long term financing?

- a) Use the excess funds to pay down long-term debt b) Invest the excess long-term financing in marketable securities
c) Use the excess funds to repurchase common stock d) Purchase additional plant and equipment

(xlix) Which of the following statements is correct for an aggressive financing policy for a firm relative to a former conservative policy?

- a) The firm will use long-term financing to finance all fixed and current assets. b) The firm will see an increase in its expected profits
c) The firm will see a decline in its risk profile d) The firm will need to issue additional common stock this period to finance the assets.

(l) Risk, as it relates to working capital, means that there is jeopardy to the firm for not maintaining sufficient current assets to _____.

- a) meet its cash obligations as they occur and take advantage of prompt payment discounts b) support the proper level of sales and take prompt payment discounts
c) maintain current and acid-test ratios at or above industry norms d) meet its cash obligations as they occur and support the proper level of sales

(li) If a company moves from a "conservative" working capital policy to an "aggressive" policy, it should expect _____.

- a) liquidity to decrease, whereas expected profitability would increase
- b) expected profitability to increase, whereas risk would decrease
- c) liquidity would increase, whereas risk would also increase
- d) risk and profitability to decrease

(lii) Which of the following is not a usual type of lease arrangement?

- a) Sale & leaseback,
- b) Goods on Approval
- c) Leverage Lease
- d) Direct Lease

(liii) Under income-tax provisions, depreciation on lease asset is allowed to

- a) Lessor
- b) Lessee
- c) Lessor or lessee
- d) None of these

(liv) Under the provisions of AS-19 'Leases', a leased asset is shown in the balance sheet of

- a) Manufacturer
- b) Lessor
- c) Lessee
- d) Financing bank

(lv) A lease which is generally not cancellable and covers full economic life of the asset is known as

- a) Sale and leaseback,
- b) Operating Lease
- c) Finance Lease
- d) Economic Lease

(lvi) Lease which includes a third party (a lender) is known as

- a) Sale and leaseback
- b) Direct Lease
- c) Inverse Lease
- d) Leveraged Lease

(lvii) One difference between Operating and Financial lease is:

- a) There is often an option to buy in operating lease
- b) There is often a call option in financial lease
- c) An operating lease is generally cancelable by lease
- d) A financial lease is generally cancelable by lease

(lviii) From the point of view of the lessee, a lease is a:

- a) Working capital decision
- b) Financing decision
- c) Buy or make decision
- d) Investment decision

(lix) For a lesser, a lease is a

- a) Investment decision
- b) Financing decision
- c) Dividend decision
- d) None of these

(lx) Basic objective of diversification is

- a) Increasing Return
- b) Maximising Return,
- c) Decreasing Risk
- d) Maximizing Risk

(lxi) Which of the following are theories for dividend relevance?

- a) Walter's Model
- b) Mm Approach
- c) Game theory
- d) Market Value theory

(lxii) Money market financial services not include:

- a) Bill discounting
- b) Merchant banking
- c) Leasing
- d) Securitisation

(lxiii) Under which type of bank borrowing can a borrower obtain credit from a bank against its bills?

- a) Letter of Credit
- b) Cash
- c) Purchase or discounting of bills
- d) Working Capital Loan

(lxiv) The factors that affect dividend policy are:

- a) Tax Consideration
- b) Privatisation
- c) Foreign Investment
- d) Working cash flow

(lxv) Which of the following would be consistent with an aggressive approach

to financing working capital?

- a) Financing short-term needs with short-term funds.
- b) Financing permanent inventory buildup with long-term debt
- c) Financing seasonal needs with short-term funds
- d) Financing some long-term needs with short-term funds

(lxvi) Which of the following would be consistent with a conservative approach to financing working capital?

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- b) Financing short-term needs with long-term debt
- c) Financing seasonal needs with short-term funds
- d) Financing some long-term needs with short-term funds

(lxvii) Your firm has a philosophy that is analogous to the hedging (maturity matching) approach. Which of the following is the most appropriate form for financing a new capital investment in plant and equipment?

- a) Trade credit
- b) 6-month bank notes
- c) Accounts payable
- d) Common stock equity.

(lxviii) Your firm has a philosophy that is analogous to the hedging (maturity matching) approach. Which of the following is the most appropriate nonspontaneous form for financing the excess seasonal current asset needs?

- a) Trade credit
- b) 6-month bank notes
- c) Accounts payable
- d) Common stock equity

(lxix) Walter's Model suggests that a firm can always increase i.e. of the share by

- a) Increasing Dividend
- b) Decreasing Dividend
- c) Constant Dividend
- d) None of these

(lxx) 'Bird in hand' argument is given by

- a) Walker's Model
- b) Gordon's Model

c) MM Mode

d) Residuals Theory