

BRAINWARE UNIVERSITY

Term End Examination 2021 - 22 Programme – Master of Business Administration Course Name – Corporate Finance Course Code - MBA207 (Semester II)

Time allotted: 1 Hrs.15 Min. Full Marks: 60 [The figure in the margin indicates full marks.] Group-A (Multiple Choice Type Question) 1 x 60=60 Choose the correct alternative from the following: (1) Shareholder wealth in a firm is represented by: b) the book value of the firm's assets less the boo a) the number of people employed in the firm k value of its liabilities d) the market price per share of the firm's comm c) the amount of salary paid to its employees. on stock. (2) The long-run objective of financial management is to a) maximize earnings per share. b) maximize the value of the firm's common stoc c) maximize return on investment. d) maximize market share. (3) A(n) would be an example of a principal, while a(n) would be an example of an agent. a) shareholder; manager b) manager; owner c) accountant; bondholder d) shareholder; bondholder (4) The market price of a share of common stock is determined by a) the board of directors of the firm. b) the stock exchange on which the stock is liste c) the president of the company. d) individuals buying and selling the stock. of a firm refers to the composition of its long-term funds and its c apital structure. a) Capitalisation b) Over-capitalisation c) Under-capitalisation d) Market capitalization , the future value of all cash inflow at the end of time horizon at (6) In the a particular rate of interest is calculated.

b) Compounding technique

d) Risk Premium

a) Risk-free rate

c) Discounting technique

(7) enhance the market value of sha	res and therefore equity capital is not free
of cost.	
a) Face value	b) Dividends
c) Redemption value	d) Book value
(8) When is greater than zero the project	et should be accepted.
a) Internal rate of return	b) Profitability index
c) Net present value	d) Modified internal rate of return
(9) is defined as the length of time re	quired to recover the initial cash out-lay.
a) Payback-period	b) Inventory conversion period
c) Discounted payback-period	d) Budget period
(10) is the length of time between the	firm's actual cash expenditure and its ow
n cash receipt.	
a) Net operating cycle	b) Cash conversion cycle
c) Working capital cycle	d) Gross operating cycle
(11) refers to a firm holding some	cash to meet its routine expenses that are
incurred in the ordinary course of business.	
a) Speculative motive	b) Transaction motive
c) Precautionary motive	d) Compensating motive
(12) and ls of the financial management of the firm.	are the two versions of goa
	b) Production maximisation, Sales maximisation
c) Sales maximisation, Profit maximization	d) Value maximisation, Wealth maximisation
(13) Consider the below mentioned statements: 1. The shareholders, that is, they cannot be accumulated dends are taxable. State True or False:	± •
a) 1-True, 2-True	b) 1-False, 2-True
c) 1-False, 2-False	d) 1-True, 2-False
(14) and carry a fixed r	ate of interest and are to be paid off irres
pective of the firm's revenues.	
a) Debentures, Dividends	b) Debentures, Bonds
c) Dividends, Bonds	d) Dividends, Treasury notes
(15) Credit policy of every company is largely influen	ced by and
·	
a) Liquidity, accountability	b) Liquidity, profitability
c) Liability, profitability	d) Liability, liquidity
(16) The rate of interest offered by the fixed deposit so s 12%. What will be the status of Rs. 20000, after time?	
a) Rs. 28032	b) Rs. 24048
c) Rs. 22056	d) Rs. 25088
(17) How are earnings per share calculated?	
a) Use the income statement to determine earnin gs after taxes (net income) and divide by the p revious period's earnings after taxes. Then sub tract 1 from the previously calculated value.	b) Use the income statement to determine earnin gs after taxes (net income) and divide by the number of common shares outstanding.
c) Use the income statement to determine earnin gs after taxes (net income) and divide by the n	d) Use the income statement to determine earnin gs after taxes (net income) and divide by the f

orecasted period's earnings after taxes. Then s umber of common and preferred shares outsta nding. ubtract 1 from the previously calculated value. (18) The gross profit margin is unchanged, but the net profit margin declined over the same per iod. This could have happened if a) cost of goods sold increased relative to sales. b) sales increased relative to expenses. c) Govt. increased the tax rate. d) dividends were decreased. (19) Palo Alto Industries has a debt-to-equity ratio of 1.6 compared with the industry average o f 1.4. This means that the company a) will not experience any difficulty with its cred b) has less liquidity than other firms in the indust c) will be viewed as having high creditworthines d) has greater than average financial risk when c ompared to other firms in its industry. (20) A company can improve (lower) its debt-to-total assets ratio by doing which of the follow ing? a) Borrow more. b) Shift short-term to long-term debt. c) Shift long-term to short-term debt. d) Sell common stock. (21) If the following are balance sheet changes: Rs. 5,005 decrease in accounts receivable, Rs. 7,000 decrease in cash, Rs. 12,012 decrease in notes payable, Rs. 10,001 increase in accou nts payable, a "use" of funds would be the: a) Rs. 7,000 decrease in cash. b) Rs. 5,005 decrease in accounts receivable. d) Rs. 12,012 decrease in notes payable. c) Rs. 10,001 increase in accounts payable. (22) Which of the following would be included in a cash estimation/budget? a) depreciation charges. b) dividends. c) goodwill. d) patent amortization. (23) Which of the following would be considered a application of funds? a) a decrease in accounts receivable. b) a decrease in cash. c) an increase in account payable. d) an increase in cash. (24) All of the following influence capital budgeting cash flows EXCEPT: a) accelerated depreciation. b) salvage value. c) tax rate changes. d) method of project financing use (25) A capital investment is one that a) has the prospect of long-term benefits. b) has the prospect of short-term benefits. c) is only undertaken by large corporations. d) applies only to investment in fixed assets. (26) Which of the following statements is correct? a) If the NPV of a project is greater than 0, its PI b) If the IRR of a project is 0%, its NPV, using a discount rate, k, greater than 0, will be 0. will equal 0. d) If the IRR of a project is greater than the disco c) If the PI of a project is less than 1, its NPV sh unt rate, k, its PI will be less than 1 and its NP ould be less than 0. V will be greater than 0. (27) 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 co ntradictory results.

(28) Preferred shareholders' claims on assets and income of a firm come those of creditors those of common shareholders.

a) before; and also before

a) will never

c) may

b) after; but before

b) will alwaysd) will generally

c) after; and also after d) equal to; and equal to (29) To increase a given present value, the discount rate should be adjusted a) upward. b) downward. c) No change. d) constant. (30) Which of the following would be consistent with a more aggressive approach to financing working capital? a) Financing short-term needs with short-term fu b) Financing permanent inventory buildup with 1 ong-term debt. c) Financing seasonal needs with short-term fund d) Financing some long-term needs with short-te rm funds. (31) Which asset-liability combination would most likely result in the firm's having the greates t risk of technical insolvency? a) Increasing current assets while lowering curre b) Increasing current assets while incurring more current liabilities. nt liabilities. c) Reducing current assets, increasing current lia d) Replacing short-term debt with equity. bilities, and reducing long-term debt. (32) In deciding the appropriate level of current assets for the firm, management is confronted b) a trade-off between liquidity and marketabilit a) a trade-off between profitability and risk. d) a trade-off between short-term versus long-ter c) a trade-off between equity and debt. m borrowing (33) varies inversely with profitability. a) Liquidity. b) Risk. c) Financing. d) Liabilities. (34) Permanent working capital a) varies with seasonal needs. b) includes fixed assets. c) is the amount of current assets required to mee d) includes accounts payable t a firm's long-term minimum needs. (35) Net working capital refers to a) total assets minus fixed assets. b) current assets minus current liabilities. c) current assets minus inventories. d) current assets. (36) Marketable securities are primarily a) short-term debt instruments. b) short-term equity securities. c) long-term debt instruments. d) long-term equity securities. (37) Which of the following marketable securities is the obligation of a commercial bank? a) Commercial paper b) Negotiable certificate of deposit d) T-bills c) Repurchase agreement (38) 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 f unds is released from or additionally invested in inventory. In fact, b) \$100,000 is additionally invested. a) \$160,000 is released. c) \$60,000 is additionally invested. d) \$60,000 is released. (39) Which of the following relationships hold true for safety stock? a) the greater the risk of running out of stock, the b) the larger the opportunity cost of the funds inv smaller the safety of stock. ested in inventory, the larger the safety stock. c) the greater the uncertainty associated with fore d) the higher the profit margin per unit, the highe

casted demand, the smaller the safety stock.

r the safety stock necessary.

(40) 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:

a) an increase in the average collection period.
b) a decrease in bad debt losses.
c) an increase in sales.
d) higher profits.

(41) An increase in the firm's receivable turnover ratio means that:

a) it is collecting credit sales more quickly than b efore.

b) cash sales have decreased.

c) it has initiated more liberal credit terms.

d) inventories have increased

(42) In calculating the proportional amount of equity financing employed by a firm, we should use:

a) the common stock equity account on the firm's balance sheet.

b) the sum of common stock and preferred stock on the balance sheet.

c) the book value of the firm.

d) the current market price per share of common stock times the number of shares outstanding.

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

a) there is less demand for stock than for bonds.

b) there is greater demand for stock than for bon

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

d) there is a market premium required for bonds.

(44) 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) this is required in the U.S. by the Securities an d Exchange Commission.

d) this is a very common mistake.

(45) Rank in ascending order (i.e., 1 = lowest, while 3 = highest) the likely after-tax componen t costs of a Company's long-term financing.

a) 1 = bonds; 2 = common stock; 3 = preferred st ock.

b) 1 = bonds; 2 = preferred stock; 3 = common st ock.

c) 1 = common stock; 2 = preferred stock; 3 = bo

d) 1 = preferred stock; 2 = common stock; 3 = bo nds.

(46) The term "capital structure" refers to:

a) long-term debt, preferred stock, and common stock equity.

b) current assets and current liabilities.

c) total assets minus liabilities.

d) shareholders' equity.

(47) 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 cost of capital remains constant regardless of changes in leverage.

d) that interest expense and taxes are included in the calculation.

(48) Two firms that are virtually identical except for their capital structure are selling in the ma rket at different values. According to M&M

a) one will be at greater risk of bankruptcy.

b) the firm with greater financial leverage will ha ve the higher value.

this proves that markets cannot be efficient.

d) this will not continue because arbitrage will e ventually cause the firms to sell at the same va lue.

(49) Reserves & Surplus are which form of financing?

a) Security Financing	b) Internal Financing
c) Loans Financing	d) International Financing
(50) In Walter model formula D stands for	
a) Dividend per share	b) Direct Dividend
c) Dividend Earning	d) None of these
(51) A project whose cash flows are more than cannt value will be	apital invested for rate of return then net prese
a) positive	b) independent
c) negative	d) zero
(52) In capital budgeting, positive net present val	ue results in
a) negative economic value added	b) positive economic value added
c) zero economic value added	d) percent economic value added
(53) An uncovered cost at start of year is divided dded in prior years to full recovery for calcu	• • • • • • • • • • • • • • • • • • • •
a) original period	b) investment period
c) payback period	d) forecasted period
(54) In internal rate of returns, discount rate whic classified as	th forces net present values to become zero is
a) positive rate of return	b) negative rate of return
c) external rate of return	d) internal rate of return
(55) Payback period in which an expected cash fl f capital is classified as	ows are discounted with help of project cost o
a) discounted payback period	b) discounted rate of return
c) discounted cash flows	d) discounted project cost
(56) In capital budgeting, a negative net present v	value results in
a) zero economic value added	b) percent economic value added
c) negative economic value added	d) positive economic value added
(57) A discount rate which equals to present valuied as	e of TV to project cost present value is classif
a) negative internal rate of return	b) modified internal rate of return
c) existed internal rate of return	d) relative rate of return
(58) Project whose cash flows are sufficient to represent value will be	pay capital invested for rate of return then net
a) negative	b) zero
c) positive	d) independent
(59) Situation in which firm limits expenditures of	on capital is classified as
a) optimal rationing	b) capital rationing
c) marginal rationing	d) transaction rationing
(60) If net present value is positive then profitabi	
a) greater than two	b) equal to one
c) less than one	d) greater than one