



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:

a) the number of people employed in the firm	b) the book value of the firm's assets less the book value of its liabilities
c) the amount of salary paid to its employees.	d) the market price per share of the firm's common 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 stock.
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 listed.
c) the president of the company.	d) individuals buying and selling the stock.
- (5) _____ of a firm refers to the composition of its long-term funds and its capital structure.

a) Capitalisation	b) Over-capitalisation
c) Under-capitalisation	d) Market capitalization
- (6) In the _____, the future value of all cash inflow at the end of time horizon at a particular rate of interest is calculated.

a) Risk-free rate	b) Compounding technique
c) Discounting technique	d) Risk Premium

- umber of common and preferred shares outstanding. forecasted period's earnings after taxes. Then subtract 1 from the previously calculated value.
- (18) The gross profit margin is unchanged, but the net profit margin declined over the same period. 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 of 1.4. This means that the company
- a) will not experience any difficulty with its creditors. b) has less liquidity than other firms in the industry.
c) will be viewed as having high creditworthiness. d) has greater than average financial risk when compared to other firms in its industry.
- (20) A company can improve (lower) its debt-to-total assets ratio by doing which of the following?
- 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 accounts payable, a "use" of funds would be the:
- a) Rs. 7,000 decrease in cash. b) Rs. 5,005 decrease in accounts receivable.
c) Rs. 10,001 increase in accounts payable. d) Rs. 12,012 decrease in notes 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 will equal 0. b) If the IRR of a project is 0%, its NPV, using a discount rate, k, greater than 0, will be 0.
c) If the PI of a project is less than 1, its NPV should be less than 0. d) 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.
- (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 contradictory results.
- a) will never b) will always
c) may d) will generally
- (28) Preferred shareholders' claims on assets and income of a firm come those of creditors those of common shareholders.
- a) before; and also before b) after; but before

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 before.
 - 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 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.
- (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 and 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 component costs of a Company's long-term financing.
- a) 1 = bonds; 2 = common stock; 3 = preferred stock.
 - b) 1 = bonds; 2 = preferred stock; 3 = common stock.
 - c) 1 = common stock; 2 = preferred stock; 3 = bonds.
 - d) 1 = preferred stock; 2 = common stock; 3 = bonds.
- (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 market at different values. According to M&M
- a) one will be at greater risk of bankruptcy.
 - b) the firm with greater financial leverage will have the higher value.
 - c) this proves that markets cannot be efficient.
 - d) this will not continue because arbitrage will eventually cause the firms to sell at the same value.
- (49) Reserves & Surplus are which form of financing?

- a) Security Financing
c) Loans Financing
- b) Internal Financing
d) International Financing
- (50) In Walter model formula D stands for
a) Dividend per share
c) Dividend Earning
- b) Direct Dividend
d) None of these
- (51) A project whose cash flows are more than capital invested for rate of return then net present value will be
a) positive
c) negative
- b) independent
d) zero
- (52) In capital budgeting, positive net present value results in
a) negative economic value added
c) zero economic value added
- b) positive economic value added
d) percent economic value added
- (53) 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
a) original period
c) payback period
- b) investment period
d) forecasted period
- (54) In internal rate of returns, discount rate which forces net present values to become zero is classified as
a) positive rate of return
c) external rate of return
- b) negative rate of return
d) internal rate of return
- (55) Payback period in which an expected cash flows are discounted with help of project cost of capital is classified as
a) discounted payback period
c) discounted cash flows
- b) discounted rate of return
d) discounted project cost
- (56) In capital budgeting, a negative net present value results in
a) zero economic value added
c) negative economic value added
- b) percent economic value added
d) positive economic value added
- (57) A discount rate which equals to present value of TV to project cost present value is classified as
a) negative internal rate of return
c) existed internal rate of return
- b) modified internal rate of return
d) relative rate of return
- (58) Project whose cash flows are sufficient to repay capital invested for rate of return then net present value will be
a) negative
c) positive
- b) zero
d) independent
- (59) Situation in which firm limits expenditures on capital is classified as
a) optimal rationing
c) marginal rationing
- b) capital rationing
d) transaction rationing
- (60) If net present value is positive then profitability index will be
a) greater than two
c) less than one
- b) equal to one
d) greater than one