



## 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  
c) Discounting technique
- b) Compounding technique  
d) Risk Premium
- (7) \_\_\_\_\_ enhance the market value of shares and therefore equity capital is not free of cost.
- a) Face value  
c) Redemption value
- b) Dividends  
d) Book value
- (8) When \_\_\_\_\_ is greater than zero the project should be accepted.
- a) Internal rate of return  
c) Net present value
- b) Profitability index  
d) Modified internal rate of return
- (9) \_\_\_\_\_ is defined as the length of time required to recover the initial cash out-lay.
- a) Payback-period  
c) Discounted payback-period
- b) Inventory conversion period  
d) Budget period
- (10) \_\_\_\_\_ is the length of time between the firm's actual cash expenditure and its own cash receipt.
- a) Net operating cycle  
c) Working capital cycle
- b) Cash conversion 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  
c) Precautionary motive
- b) Transaction motive  
d) Compensating motive
- (12) \_\_\_\_\_ and \_\_\_\_\_ are the two versions of goals of the financial management of the firm.
- a) Profit maximisation, Wealth maximization  
c) Sales maximisation, Profit maximization
- b) Production maximisation, Sales maximisation  
d) Value maximisation, Wealth maximisation
- (13) Consider the below mentioned statements: 1. The dividends are not cumulative for equity shareholders, that is, they cannot be accumulated and distributed in the later years. 2. Dividends are taxable. State True or False:
- a) 1-True, 2-True  
c) 1-False, 2-False
- b) 1-False, 2-True  
d) 1-True, 2-False
- (14) \_\_\_\_\_ and \_\_\_\_\_ carry a fixed rate of interest and are to be paid off irrespective of the firm's revenues.
- a) Debentures, Dividends  
c) Dividends, Bonds
- b) Debentures, Bonds  
d) Dividends, Treasury notes
- (15) Credit policy of every company is largely influenced by \_\_\_\_\_ and \_\_\_\_\_.
- a) Liquidity, accountability  
c) Liability, profitability
- b) Liquidity, profitability  
d) Liability, liquidity
- (16) The rate of interest offered by the fixed deposit scheme of a bank for 365 days and above is 12%. What will be the status of Rs. 20000, after two years if it is invested at this point of time?
- a) Rs. 28032  
c) Rs. 22056
- b) Rs. 24048  
d) Rs. 25088
- (17) How are earnings per share calculated?

- a) 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.
- b) Use the income statement to determine earnings after taxes (net income) and divide by the number of common shares outstanding.
- c) Use the income statement to determine earnings after taxes (net income) and divide by the number of common and preferred shares outstanding.
- d) 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.
- (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  
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 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.
- (31) Which asset-liability combination would most likely result in the firm's having the greatest risk of technical insolvency?
- a) Increasing current assets while lowering current liabilities.  
b) Increasing current assets while incurring more current liabilities.  
c) Reducing current assets, increasing current liabilities, and reducing long-term debt.  
d) Replacing short-term debt with equity.
- (32) In deciding the appropriate level of current assets for the firm, management is confronted with
- a) a trade-off between profitability and risk.  
b) a trade-off between liquidity and marketability.  
c) a trade-off between equity and debt.  
d) a trade-off between short-term versus long-term 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 meet a firm's long-term minimum needs.  
d) includes accounts payable
- (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
  - c) Repurchase agreement
  - d) T-bills
- (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 funds is released from or additionally invested in inventory. In fact,
- a) \$160,000 is released.
  - b) \$100,000 is additionally invested.
  - 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 smaller the safety of stock.
  - b) the larger the opportunity cost of the funds invested in inventory, the larger the safety stock.
  - c) the greater the uncertainty associated with forecasted demand, the smaller the safety stock.
  - d) the higher the profit margin per unit, the higher 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
- 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 capital invested for rate of return then net present value will be
- a) positive
- b) independent
- c) negative
- d) zero
- (52) In capital budgeting, positive net present value 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 by full cash flow during recovery year then added in prior years to full recovery for calculating
- a) original period
- b) investment period
- c) payback 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
- b) negative rate of return
- c) external 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
- b) discounted rate of return
- c) discounted cash flows
- d) discounted project cost

- (56) In capital budgeting, a negative net present 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 value of TV to project cost present value is classified as
- 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 repay capital invested for rate of return then net present value will be
- a) negative
  - b) zero
  - c) positive
  - d) independent
- (59) Situation in which firm limits expenditures 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 profitability index will be
- a) greater than two
  - b) equal to one
  - c) less than one
  - d) greater than one