



# BRAINWARE UNIVERSITY

**Term End Examination 2021 - 22**

**Programme – Bachelor of Business Administration**

**Course Name – Financial Management**

**Course Code - BBAC403**

**( Semester IV )**

**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) A capital budgeting technique which does not require the computation of cost of capital for decision making purposes is,
  - a) Net Present Value Method
  - b) Internal Rate of Return Method
  - c) Profitability Index Method
  - d) Payback Period Method
- (2) If the cut off rate is greater than IRR, we may
  - a) Accept the proposal
  - b) Reject the proposal
  - c) Be neutral about it
  - d) None of the above
- (3) Capital Budgeting is done for
  - a) Evaluating short term investment decision
  - b) Evaluating medium term investment decision
  - c) Evaluating long term investment decision
  - d) None of the above
- (4) Under Net present value criterion, a project is approved if
  - a) NPV is positive
  - b) Funds are unlimited
  - c) NPV is Zero
  - d) None of the above
- (5) The capital budget is associated with.
  - a) Long terms and short terms assets
  - b) Fixed assets
  - c) Long term assets
  - d) Short term assets
- (6) What does financial leverage measure?
  - a) No change with EBIT and EPS
  - b) The sensibility of EBIT with % change with respect to output
  - c) The sensibility of EPS with % change in the EBIT level
  - d) Percent variation in the level of production
- (7) Financial management mainly focuses on

- a) Efficient management of every business      b) Brand dimension  
 c) Arrangement of funds      d) All elements of acquiring and using means of financial resources for financial activities
- (8) Heterogeneous cash flows can be made comparable by  
 a) Discounting technique      b) Compounding technique  
 c) Either a or b      d) None of the above
- (9) Cost of capital is  
 a) Lesser than the cost of debt capital      b) Equal to the last dividend paid to the equity shareholders.  
 c) Equal to the dividend expectations of equity shareholders for the coming year      d) None of the above.
- (10) Which of the following is known as variable income security?  
 a) Equity Share      b) Preference Share  
 c) Debenture      d) All of the above
- (11) Which of the following is not a specific risk factor?  
 a) Company strike      b) Bankruptcy of a major supplier  
 c) Death of a key company officer      d) Industrial recession
- (12) Which of the following is concerned with the acquisition, financing, and management of assets with some overall goal in mind?  
 a) Financial management      b) Profit maximization.  
 c) Agency theory      d) Social responsibility.
- (13) \_\_\_\_\_ is the minimum required rate of earnings or the cut off rate of capital expenditure.  
 a) Cost of capital.      b) Working capital  
 c) Equity capital.      d) None of the above.
- (14) Which of the following is the first step in capital budgeting process?  
 a) Final approval      b) Screening the proposal  
 c) Implementing proposal      d) Identification of investment proposal
- (15) A mutually exclusive project can be selected as per payback period when it is \_\_\_\_\_  
 a) Less      b) More  
 c) More than 5 year      d) None of the above
- (16) To increase the given present value, the discounted rate should be adjusted  
 a) Upward      b) Downward  
 c) Constant      d) None of the above
- (17) The only feasible purpose of financial management is  
 a) Wealth Maximization      b) Sales Maximization  
 c) Profit Maximization      d) Assets maximization
- (18) Agency cost consists of  
 a) Binding      b) Monitoring  
 c) Opportunity and structure cost      d) All of the above
- (19) Time value of money supports the comparison of cash flows recorded at different time period by

- a) Discounting all cash flows to a common point of time      b) Compounding all cash flows to a common point of time
- c) Using either a or b      d) None of the above
- (20) 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
- (21) 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
- (22) What are the earnings per share (EPS) for a company that earned Rs. 100,000 last year in after-tax profits, has 200,000 common shares outstanding and Rs. 1.2 million in retained earning at the year end?
- a) Rs. 100,000      b) Rs. 6.00
- c) Rs. 0.50      d) Rs. 6.50
- (23) 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
- (24) The focal point of financial management in a firm is:
- a) the number and types of products or services provided by the firm      b) the minimization of the amount of taxes paid by the firm.
- c) the creation of value for shareholders      d) the dollars profits earned by the firm
- (25) 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
- (26) \_\_\_\_\_ enhance the market value of shares and therefore equity capital is not free of cost.
- a) Face value      b) Dividends
- c) Redemption value      d) Book value
- (27) Focus of financial management is mainly concerned with the decision related to:
- a) Financing      b) Investing
- c) Dividend      d) All of above.
- (28) When \_\_\_\_\_ is greater than zero the project should be accepted.
- a) Internal rate of return      b) Profitability index
- c) Net present value      d) Modified internal rate of return
- (29) \_\_\_\_\_ refers to the amount invested in various components of current assets.
- a) Temporary working capital      b) Net working capital
- c) Gross working capital      d) Permanent working capital
- (30) \_\_\_\_\_ is the length of time between the firm's actual cash expenditure and its own cash receipt.

- a) Net operating cycle  
b) Cash conversion cycle  
c) Working capital cycle  
d) Gross operating cycle
- (31) \_\_\_\_\_ 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
- (32) Amounts due from customers when goods are sold on credit are called \_\_\_\_\_.
- a) Trade balance  
b) Trade debits  
c) Trade discount  
d) Trade off
- (33) \_\_\_\_\_ and \_\_\_\_\_ carry a fixed rate of interest and are to be paid off irrespective of the firm's revenues.
- a) Debentures, Dividends  
b) Debentures, Bonds  
c) Dividends, Bonds  
d) Dividends, Treasury notes
- (34) Consider the below mentioned statements: 1. A debt-equity ratio of 2:1 indicates that for every 1 unit of equity, the company can raise 2 units of debt. 2. The cost of floating a debt is greater than the cost of floating an equity issue. State True or False:
- a) 1-True, 2-True  
b) 1-False, 2-True  
c) 1-False, 2-False  
d) 1-True, 2-False
- (35) XYZ is an oil based business company, which does not have adequate working capital. It fails to meet its current obligation, which leads to bankruptcy. Identify the type of decision involved to prevent risk of bankruptcy
- a) Investment decision  
b) Dividend decision  
c) Liquidity decision  
d) Finance decision
- (36) Which of the following would NOT improve the current ratio?
- a) Borrow short term to finance additional fixed assets  
b) Issue long-term debt to buy inventory.  
c) Sell common stock to reduce current liabilities.  
d) Sell fixed assets to reduce accounts payable
- (37) Which of the following statements (in general) is correct?
- a) A low receivables turnover is desirable  
b) The lower the total debt-to-equity ratio, the lower the financial risk for a firm.  
c) An increase in net profit margin with no change in sales or assets means a poor ROI  
d) The higher the tax rate for a firm, the lower the interest coverage ratio
- (38) Which of the following is NOT a cash outflow for the firm?
- a) depreciation  
b) dividends  
c) interest payments  
d) taxes
- (39) 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 used
- (40) 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
- (41) A profitability index of .85 for a project means that:

- a) project will be accepted  
c) neutral
- b) project will be rejected  
d) none of the above
- (42) \_\_\_\_\_ varies inversely with profitability
- a) Liquidity  
c) Financing
- b) Risk  
d) Liabilities
- (43) Net working capital refers to
- a) total assets minus fixed assets  
c) current assets minus inventories
- b) current assets minus current liabilities  
d) current assets
- (44) The basic requirement for a firm's marketable securities
- a) Safety  
c) Marketability
- b) Yield  
d) All of the above
- (45) The term "capital structure" refers to:
- a) long-term debt, preferred stock, and common stock equity  
c) total assets minus liabilities
- b) current assets and current liabilities  
d) shareholders' equity
- (46) The traditional approach towards the valuation of a company assumes:
- a) that the overall capitalization rate holds constant with changes in financial leverage  
c) that total risk is not altered by changes in the capital structure
- b) that there is an optimum capital structure  
d) that markets are perfect
- (47) Reserves & Surplus are which form of financing?
- a) Security Financing  
c) Loans Financing
- b) Internal Financing  
d) International Financing
- (48) In MM model MM stands for...
- a) M.Khan and Modigliani  
c) Modigliani and M.Khan
- b) Miller and M.Khan  
d) Miller and Modigliani
- (49) CAPM stands for
- a) Capital Asset Pricing Model  
c) Capital Asset Product Model
- b) Capital Arbitration Model  
d) none of the above
- (50) When total current assets exceeds total current liabilities it refers to
- a) Gross Working Capital  
c) Both 1 and 2
- b) Temporary Working Capital  
d) Net Working Capital
- (51) Which of the following would not be financed from working capital?
- a) Cash float  
c) Credit sales
- b) Accounts receivable  
d) A new personal computer for the office
- (52) What is the difference between the current ratio and the quick ratio?
- a) The current ratio includes inventories and the quick ratio does not  
c) The current ratio includes physical capital and the quick ratio does not
- b) The current ratio does not include inventories and the quick ratio does  
d) The current ratio does not include physical capital and the quick ratio does
- (53) An asset is a-
- a) Source of fund  
c) Inflow of funds
- b) Use of fund  
d) none of the above

- (54) The shareholder value maximisation model holds that the primary goal of the firm is to maximise its:
- a) Accounting profit
  - b) Liquidity
  - c) Market value
  - d) Working capital.
- (55) Management of all matters related to an organisation's finances is called:
- a) Cash inflows and outflows
  - b) Allocation of resources
  - c) Financial management
  - d) Finance.
- (56) Which of the following is not an element of financial management?
- a) Allocation of resources
  - b) Financial Planning
  - c) Financial Decision-making
  - d) Financial control.
- (57) To achieve wealth maximization, the finance manager has to take careful decision in respect of:
- a) Investment
  - b) Financing
  - c) Dividend
  - d) All the above.
- (58) Early in the history of finance, an important issue was:
- a) Liquidity
  - b) Technology
  - c) Capital structure
  - d) Financing options
- (59) Which of the following sources of funds is related to Implicit Cost of Capital?
- a) Equity Share Capital,
  - b) Preference Share Capital,
  - c) Debentures,
  - d) Retained earnings
- (60) Which of the following cost of capital require to adjust tax?
- a) Cost of Equity Shares
  - b) Cost of Preference Shares,
  - c) Cost of Debentures
  - d) Cost of Retained Earnings.