



## BRAINWARE UNIVERSITY

Term End Examination 2021 - 22

Programme – Bachelor of Business Administration

Course Name – Financial Management, Banking and Financial Institutions

Course Code - BBA401

( Semester IV )

Time allotted : 1 Hrs.25 Min.

Full Marks : 70

[The figure in the margin indicates full marks.]

### Group-A

(Multiple Choice Type Question)

1 x 70=70

Choose the correct alternative from the following :

- (1) 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
- (2) The objective of wealth maximization takes into account -
  - a) Amount of returns expected
  - b) Timing of anticipated returns
  - c) Risk associated with uncertainty of returns
  - d) All of these
- (3) Opportunities to achieve further growth within current businesses are -
  - a) Intensive Opportunities
  - b) Integrative Opportunities
  - c) Diversification Opportunities
  - d) None of these
- (4) "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.
- (5) 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
- (6) A \_\_\_\_\_ 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
- (7) 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.
- (8) \_\_\_\_\_ and \_\_\_\_\_ are the two versions of goals of the financial management of the firm.
- a) Profit maximisation, Wealth maximization      b) Production maximisation, Sales maximisation
- c) Sales maximisation, Profit maximization      d) Value maximisation, Wealth maximisation
- (9) What is the math of finance whereby interest is earned over time by saving or investing money?
- a) Future value      b) Present value
- c) Time value of money      d) Principal
- (10) The arithmetic process whereby a future value decreases at a compound interest rate over time to reach a present value is known as \_\_\_\_\_.
- a) discounting      b) inflation
- c) compounding      d) future value
- (11) A shortcut method referred to as \_\_\_\_\_ can be used to approximate the time required for an investment to double in value.
- a) the future value equation      b) the time value of money equation
- c) the Rule of 72      d) discounting
- (12) \_\_\_\_\_ is the act of lending money at an excessively high interest rate.
- a) Usury      b) Amortization
- c) Shamming      d) Larceny
- (13) A technique which is based upon discounted cash flow is classified as -
- a) Net Present Value Method      b) Delphi Method
- c) Debt Budgeting Method      d) Equity Budgeting Method
- (14) Which of the following statements about NPV is not True?
- a) When considering 2 or more projects the one with highest positive NPV is considered      b) Projects with Negative NPV are not selected
- c) NPV can be negative, zero or positive      d) When considering 2 or more projects the one with lowest NPV is considered
- (15) This is a not a Discounted method of Investment Evaluation Criteria.
- a) Payback Period      b) IRR
- c) PI      d) NPV
- (16) Investment Evaluation Criteria does not involve one of the following thing -
- a) Competitor Analysis      b) Application of Decision rule for the choice
- c) Estimation of Required rate of return      d) Cash Flow Estimation
- (17) The internal Rate of Return (IRR) criterion for project acceptance, under theoretically infinite funds is: accept all projects which have -
- a) IRR equal to the cost of capital      b) IRR greater than the cost of capital
- c) IRR less than the cost of capital      d) None of these
- (18) What is the value of the firm usually based on?
- a) The value of debt and equity.      b) The value of equity.
- c) The value of debt.      d) The value of assets plus liabilities
- (19) Shareholders wealth increases with the increase in \_\_\_\_\_.
- a) EPS      b) Market value of the firm
- c) Dividend & market value of the firm      d) Market price of the equity share

- (20) Leasing of machinery can be categorized as \_\_\_\_\_
- a) Fixed asset
  - b) Investment decision
  - c) Financing decision
  - d) Capital budgeting decision
- (21) Internal rate of return is \_\_\_\_\_
- a) Rate at which discounted cash inflow is more than discounted cash outflow
  - b) Rate at which discounted cash inflow is less than discounted cash outflow
  - c) Rate at which discounted cash inflow is equal to the discounted cash outflow
  - d) Either Rate at which discounted cash inflow is more than discounted cash outflow or less than discounted cash outflow
- (22) Corporate wealth maximization is the value maximization for \_\_\_\_\_
- a) Equity shareholders
  - b) Stakeholders
  - c) Employees
  - d) Debt capital owners
- (23) A project is accepted when-
- a) Net present value is greater than zero
  - b) Internal Rate of Return will be greater than cost of capital
  - c) Profitability index will be greater than unity
  - d) Any of these
- (24) Investment whose cash flows are sufficient to repay capital invested for rate of return then net present value will be
- a) Independent
  - b) Negative
  - c) Positive
  - d) Zero
- (25) Which of the following statements are false? A) When all the figures in a balance sheet are stated as percentage of the total, it is termed as horizontal analysis. B) When financial statements of several years are analyzed, it is termed as vertical analysis. C) Vertical Analysis is also termed as dynamic analysis
- a) Both A and B
  - b) Both A and C
  - c) Both B and C
  - d) A, B, C
- (26) What highlights the trend of the business when compare of financial statements?
- a) Financial position
  - b) Performance
  - c) Profitability
  - d) All of these
- (27) Which of the following are techniques, tools or methods of analysis and interpretation of financial statements?
- a) Ratio Analysis
  - b) Average Analysis
  - c) Trend Analysis
  - d) All of these
- (28) Interpretation of accounts is the -
- a) Art and science of translating the figures
  - b) To know financial strengths and weaknesses of a business
  - c) To know the causes for the prevailing performance of business
  - d) All of these
- (29) A firm is considering three investment projects which we will refer to as A, B, and C. Each project has an initial cost of \$10 million. Investment A offers an expected rate of return of 16%, B of 8%, and C of 12%. The firm's cost of capital is 6% if it borrows \$10 million, 10% if it borrows \$20 million, and 15% if it borrows \$30 million. Which project(s) should the firm invest in?
- a) Just A, because it offers the highest rate of return and is the only investment that has a rate of return higher than 15%
  - b) All three should be undertaken, because the rate of return on B is above 6%, on C is above 10%, and on A is above 15%.
  - c) Only A and C should be undertaken because both have rates of return that are greater than 10%
  - d) None of these are correct.

0%.

- (30) The net present value method and the internal rate of return method will always yield the same decision when \_\_\_\_\_.
- a) a single project is evaluated.
  - b) mutually exclusive projects are evaluated.
  - c) a limited number of projects must be selected from a large number of opportunities.
  - d) All of these are correct
- (31) In cases where capital must be rationed, a firm should rank projects according to their -
- a) net present values.
  - b) internal rates of return.
  - c) profitability indexes.
  - d) external rates of return.
- (32) A firm can borrow at an interest rate of 10%. Its marginal tax rate is 40%. What is its cost of debt?
- a) 6%
  - b) 10%
  - c) 14%
  - d) None of these
- (33) During planning period, a marginal cost for raising a new debt is classified as -
- a) debt cost
  - b) relevant cost
  - c) borrowing cost
  - d) embedded cost
- (34) A risk associated with project and way considered by well diversified stockholder is classified as -
- a) expected risk
  - b) beta risk
  - c) industry risk
  - d) returning risk
- (35) \_\_\_\_\_ on capital is called 'Cost of capital'.
- a) Lower expected return
  - b) Normally expected return
  - c) Higher expected return
  - d) None of these
- (36) A single, overall cost of capital is often used to evaluate projects because -
- a) It avoids the problem of computing the required rate of return for each investment proposal
  - b) It is the only way to measure a firm's required return
  - c) It acknowledges that most new investment projects have about the same degree of risk
  - d) It acknowledges that most new investment projects offer about the same expected return
- (37) Equity shareholders are called \_\_\_\_\_.
- a) Owners of the company
  - b) Partners of the company
  - c) Executives of the company
  - d) Guardian of the company
- (38) The term 'redeemable' is used for -
- a) Preference shares
  - b) Commercial paper
  - c) Equity shares
  - d) Public deposits
- (39) Internal sources of capital are those that are -
- a) generated through outsiders such as suppliers
  - b) generated through loans from commercial banks
  - c) generated through issue of shares
  - d) generated within the business
- (40) Which capital structure is an ideal composition of borrowed and owned capital -
- a) Preference share
  - b) Optimum
  - c) Equity
  - d) Debt
- (41) The overall weighted average cost of capital is used instead of costs for specific sources of funds because -
- a) Use of the cost for specific sources of capital would make investment decisions consistent
  - b) It is the minimum point for the firm's cost of capital given the current equity mix
  - c) Investments funded by low cost debt would have
  - d) A project with the lowest return would always

- ve a disadvantage over other investments                      be accepted under the specific cost criteria
- (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) In calculating the costs of the individual components of a firm's financing, the corporate tax rate is important to which of the following component cost formulas -
- a) common stock
  - b) debt
  - c) preferred stock
  - d) none of these
- (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 India by the SEBI
  - d) this is a very common mistake
- (45) For an all-equity financed firm, a project whose expected rate of return plots should be rejected
- a) above the characteristic line
  - b) above the security market line
  - c) below the security market line
  - d) below the characteristic line
- (46) In finance, "working capital" means the same thing as -
- a) total assets
  - b) fixed assets
  - c) current assets
  - d) current assets minus current liabilities
- (47) 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
- (48) Which of the following illustrates the use of a hedging (or matching) approach to financing?
- a) Short-term assets financed with long-term liabilities
  - b) Permanent working capital financed with long-term liabilities
  - c) Short-term assets financed with equity
  - d) All assets financed with a 50 percent equity, 50 percent long-term debt mixture
- (49) 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
- (50) \_\_\_\_\_ varies inversely with profitability
- a) Liquidity
  - b) Risk
  - c) Blue
  - d) None of these
- (51) 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
- (52) 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
- (53) Spontaneous financing includes -  
a) accounts receivable  
c) short-term loans
- b) accounts payable  
d) a line of credit
- (54) The working capital requirement (WCR) is -  
a) working capital less short-term debt less cash  
c) inventories plus receivables less payables plus prepayments less accruals
- b) working capital plus short-term debt plus cash  
d) inventories plus receivables less payables
- (55) Working capital is \_\_\_\_\_.  
a) WCR plus short-term debt plus cash  
c) WCR less short-term debt less cash
- b) equity plus long-term debt less non-current assets  
d) equity plus long-term debt plus non-current assets
- (56) \_\_\_\_\_ is/ are the aspects of working capital management.  
a) Inventory management  
c) Cash management
- b) Receivable management  
d) All of these
- (57) The art of managing, within the acceptable level of risk, the consolidated funds optimally and profitably is called \_\_\_\_\_.  
a) Integrated treasury  
c) Merchant banking
- b) Treasury management  
d) None of these
- (58) \_\_\_\_\_ are people who buy or sell in the market to make profits called  
a) Hedgers  
c) Speculators
- b) Arbitrageurs  
d) None of these
- (59) Factoring involves \_\_\_\_\_.  
a) Providing short term loan  
c) Financing of export receivables
- b) Providing long term loan  
d) Management of receivables of borrower
- (60) Under \_\_\_\_\_ a borrower obtain credit from a bank against its bills.  
a) Purchase or discounting of bills  
c) Cash
- b) Letter of Credit  
d) Working Capital Loan
- (61) \_\_\_\_\_ would be consistent with an aggressive approach to financing working capital.  
a) Financing short-term needs with short-term funds.  
c) Financing seasonal needs with short-term funds
- b) Financing permanent inventory buildup with long-term debt.  
d) Financing some long-term needs with short-term funds
- (62) \_\_\_\_\_ would be consistent with a conservative approach to financing working capital.  
a) Financing short-term needs with short-term funds  
c) Financing seasonal needs with short-term funds
- b) Financing short-term needs with long-term debt  
d) Financing some long-term needs with short-term funds
- (63) Working capital is also known as \_\_\_\_\_.  
a) Trading capital  
c) Day-to-day capital
- b) Work in progress capital  
d) Current capital or circulating capital
- (64) Different stakeholders possess different powers and interests. Stakeholders should be treated with high interest and high power -  
a) Invest maximum effort
- b) Devote negligible effort

- c) Keep them informed about all the major happenings
- d) No extra effort needed
- (65) Companies provide credit system as it is -
- a) An essential tool for alluring and holding the valuable clients
- b) feasible for the managers
- c) needed by the suppliers
- d) a way to organize the capital of the organization
- (66) 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
- (67) Working Capital Turnover measures the relationship of Working Capital with
- a) Fixed Assets
- b) Sales
- c) Purchases
- d) Stock
- (68) Inventory Turnover calculation, what is taken in the numerator?
- a) Sales
- b) Cost of Goods Sold
- c) Opening Stock
- d) Closing Stock
- (69) The key to current asset planning is -
- a) ensuring that the firm remains current on its obligation
- b) Not ensuring that the firm remains current on its obligation
- c) forecasting sales accurately and matching production with the forecast
- d) maintaining the proper rate of asset growth
- (70) Co-operative banks are regulated by the Reserve Bank of India under which act?
- a) Banking Regulation Act, 1949
- b) Banking Laws (Application to Co-operative Societies) Act, 1965
- c) Negotiable Instrument Act-1881
- d) Both Banking Regulation Act, 1949 and Banking Laws (Application to Co-operative Societies) Act, 1965