FINANCIAL MANAGEMENT – MODEL QUESTIONS

SUBJECT CODE: MB0029

SECOND SEMESTER

SECTION A - 1 MARK

1. Goal of financial management is ………..of economic welfare
   A. Nationalization
   B. Maximization
   C. Minimization
   D. Normalization

2. The core of modern financial management is procurement of least cost funds and its effective utilization. It is more____________ in nature:
   A. Geometrical
   B. Analytical
   C. Practical
   D. Theoretical

3. Investment decision is also known as
   A. Capital decision
   B. Profit decision
   C. Capital budgeting decision
   D. Working capital decision

4. Rate of return required by investor is normally known as:
   A. Coupon rate
   B. Market rate
   C. Hurdle rate
   D. Risk-free rate

5. Long term external borrowings are known as
   A. Winning capital
   B. Share capital
   C. Working capital
   D. Debt capital

6. Time value of money is also known as………………. of money
   A. Time preference
   B. Time difference
   C. Time occurrence

D. None

7. Time value of money is generally expressed as:
   A. Dividend rate
   B. Profitable rate
   C. Sales rate
   D. Interest rate

8. Calculation of principal amount and compound interest is
   A. P (l + r)^n
   B. P (l + r)
   C. P (l - r)
   D. l + r/p

9. Formula to calculate future value is.
   A. PV l+ r
   B. PV(l +r)
   C. PV (l -r)
   D. PV (l + r)^n

10. Doubling period concept refers to.
    A. Time Period
    B. Conversion period
    C. Money period
    D. Convenient period

11. If the rate of interest is 5 %, the Rule 72 is applied as.
    A. 72/5
    B. 5/72
    C. 72*5
    D. None

12. The ………. of PV annuity factor is called capital recovery factor
    A. Reciprocal
    B. Double
    C. Triple
    D. None

13. A rupee received today has ………value than received a year later
    A. Constant
    B. Less
    C. More

D. None

14. Ordinary shares are known as:
    A. Equity
    B. Preference
    C. Private equity
    D. Preferential allotment

15. Assets are recorded at ……….cost
    A. Future
    B. Present
    C. Historical
    D. Temporal

16. Zero coupon bonds are issued at ……….to the face value
    A. Discount
    B. Premium
    C. Par
    D. Discount and redeemed at par

17. If the coupon rate is Rs. 80 and market price is Rs. 920, the current yield is
    A. 7.8%
    B. 8.7%
    C. 8.8%
    D. 8.9%

18. Cost of capital is minimum:
    A. Required rate of return
    B. Rate of risk
    C. Rate of growth
    D. Rate of investment

19. Cost of debenture is the………… Rate
    A. Dividend
    B. Interest
    C. Discount
    D. Market

20. Term loans have…………interest rate
    A. Floating
    B. Pre-determined fixed

C. Zero
D. None

21. Under dividend forecast approach……… is important
    A. Intrinsic value
    B. Book value
    C. Par value
    D. None

22. The formula for retained earnings is ………..
    A. Kr = Ke
    B. Kr > Ke
    C. Kr < Ke
    D. None

23. Capital structure is ……………………………plan
    A. Financial
    B. Operating
    C. Budgeting
    D. Costing

24. Proper mix of funds is referred to as………capital structure
    A. Minimal
    B. Optimal
    C. Visual
    D. None

25. Capital Budgeting decisions are grouped with……………..
    A. Cost reduction program
    B. Revenue generation
    C. Dismantling program
    D. Both A and B

26. ____________appraisal is also known as social cost benefit analysis
    A. Commercial
    B. Technical

C. Financial
D. Economic

27. Pay back measures profitability of the project
    A. True
    B. False
    C. Not sure
    D. None

28. Incremental PAT is:
    A. EBIT
    B. Tax rate
    C. 1-t
    D. EBIT (1-t)

29. Discounted cash flow method does not include:
    A. NPV
    B. IRR
    C. PI
    D. ARR

30. In portfolio risk, ______reflects the degree to which the returns of two securities vary or change
    A. Cooperation
    B. Coordination
    C. Standard deviation
    D. Covariance

31. Imposing constraints on the total size of its capital budgeting is capital…………..
    A. Positioning
    B. Pioneering
    C. Rationing
    D. Recovering

32. Under capital rationing, a firm is under the ………. of funds
    A. Restraint

B. Constraint
C. Abundant
D. None

33. External capital rationing is due to …. of capital market
    A. Imperfection
    B. Injection
    C. Insulation
    D. Indigestion

34. Under capital rationing, investment proposals are ranked on………..
    A. Subjective judgment
    B. Urgency
    C. Profitability
    D. Pressure/ Politics

35. Difference between purchase price and standard price is analyzed through…………. analysis
    A. Vibrant
    B. Value
    C. Variable
    D. Variance

36. In FIFO, goods received first are used
    A. Last
    B. Least
    C. First
    D. Second

37. When projects are not divisible …………... can be employed.
    A. Integrated programming
    B. Internal programming
    C. Integer programming
    D. Inclusive programming

38. When goods sold on credit, finished goods get converted into………
    A. Payables

B. Stock
C. Receivables
D. Cash

39. Receivables form part of …………assets
    A. Fixed
    B. Intangible
    C. Current
    D. Fictitious

40. When the customer fails to pay his dues on the expiry date the costs incurred by the firm is known as
    A. Delinquency
    B. Adequacy
    C. Normal
    D. Abnormal

SECTION –B (2 marks)

1. Finance is the life blood of an organization. It embraces all managerial activities that aim at:
   A. Procurement of funds at least cost.
   B. Working capital management
   C. Effective deployment of funds
   D. Both A and C
2. Maximization of economic welfare means maximization of __________
   A. Profits
   B. Fixed and current assets
   C. Shareholder's wealth
   D. Both A and B
3. Any project which generates ……….. creates wealth
   A. Positive net present value
   B. Possessive net present value
   C. Preventive net present value
   D. Possible net present value
4. Financial planning deals with:

A. Financial requirement
B. Financial disbursement
C. Financial allotment
D. None

5. Sources of finance is grouped into:
   A. Debt and equity
   B. Debt and cash
   C. Debt and profit
   D. Profit and reserves

6. Zero time period refers to ………………….investment period
   A. Initial
   B. Potential
   C. Perennial
   D. None

7. Net worth is
   A. Paid-up capital
   B. Paid-up capital + reserves
   C. Paid-up capital – reserves
   D. Paid-up capital +reserves + debt capital

8. Book value of share is
   A. Net worth /outstanding equity shares
   B. Market value / outstanding equity shares
   C. Market value - Net worth / outstanding equity shares
   D. Net worth / all outstanding shares

9. Zero coupon bonds carry :
   A. Coupon rate of interest
   B. Risk free rate of interest
   C. Risk free rate + risk premium rate
   D. No coupon rate

10. Variable cost vary in direct ………. to output
    A. Proportion

B. Ratio

C. Percentile

D. None

11. Financial leverage is also known as trading on

A. Debt

B. Equity

C. Preference

D. Debt and Preference

12. Value of debt is:

A. B=I/kd

B. B= I

C. B=I*kd

D. None

13. ________is based on accounting information

A. Pay back period

B. Accounting rate of return

C. Discounted pay back period

D. Net present value

14. CE is expanded as………..

A. Certainty efficiency

B. Certainty exemption

C. Certainty elimination

D. Certainty equivalent

15. Initial cash outlay Rs. 10 Lakhs , two years cash inflows Rs. 5 and Rs. 3 lakhs , respectively the recovery rate of initial cash outlay is……………….

A. 10%

B. 20%

C. 50%

D. 80%

16. Under capital rationing, projects are……………

A. Prioritized

B. Privatized

C. Prototype

D. None

17. Under capital rationing it is difficult to generate ……….. Fund

A. Additional

B. Temporary

C. Private equity

D. Debt

18. While ranking the projects for investment proposal, descending order is adopted for……………….

A. Profitability index

B. Probability index

C. Proficiency index

D. Possibility index

19. Cash is a …………….asset

A. Fixed

B. Current

C. Intangible

D. Fictitious

20. In managing cash flow, speed up ……..and slow down………of cash

A. Inflow , outflow

B. Outflow, inflow

C. Reserve, bad debts

D. Income , Expenses

SECTION –C (4 MARKS)

1. Sales Rs. 1300, gross profit is Rs. 520 increase in sale is 30%, the cost is

A. Rs.1014

B. Rs.1041

C. Rs.1004

D. None

2. Value of fixed asset opening Rs. 100 and closing Rs. 200, the depreciation at 20% is

A. Rs.20
B. Rs.40
C. Rs.60
D. Rs.80

3. Mr. X found that the end of third year, he has Rs. 1157.63 in his bank account, the rate allowed by the bank is 5% compounded annually , What is the amount deposited ?

A. Rs.1600
B. Rs.1500
C. Rs.1000
D. Rs.1050

4. Given that rate of interest is 10% p.a applying the Rule 69, the number of years is:

A. 2.7
B. 2.8
C. 7.2
D. 7.25

5. Cash flows for 3 years are Rs. 20,000 each, discount rate is 10% , the value of asset is

A. Rs. 44,970
B. Rs. 49,470
C. Rs. 47,940
D. Rs. 40,940

6. Face value of a bond Rs. 100, coupon rate 12% maturity period 5 years, interest rate 10% , value of bond is :

A. Rs. 701.59
B. Rs. 105.79
C. Rs. 105.90
D. Rs. 107.59

7. Par value of debenture Rs. 100, interest rate 15% p.a , redemption after 8 years at 8% premium Corporate tax 50 % , new issue is priced at 3% discount , the cost of debenture is:

A. 4.8%
B. 5.1%
C. 5.2%
D. 8.4%

8. Face value of preference share is Rs.100 , dividend rate 12%, redemption after 10 years at Rs. 4 per share premium . The company hopes to realize Rs. 98 per share now, the cost is:
   A. 12.74%
   B. 12.47%
   C. 12.43%
   D. 12%

9. Dividend per share is Rs. 2 market price of equity is Rs.32 ,growth rate is 10% cost of capital is:
   A. 16.52%
   B. 16.25%
   C. 16.00%
   D. 16.20%

10. Preference shares issued in with a maturity premium of 10% and a coupon rate of 9%, face value is Rs. 100 and redemption after 8 years. Issues will be made at 3 % discount . The cost of preference capital is:
    A. 10.12%
    B. 10.75%
    C. 10.27%
    D. 10%

11. A firm sells a product for Rs. 10 per unit , variable cost Rs. 5 per unit and fixed expenses Rs. 5000 p.a, find the EBIT sale is 1000 units
    A. Zero
    B. Rs.5000
    C. Rs.10000
    D. Rs.8000

12. Sales 1000 units , SP Rs. 300 , VC Rs. 100, the operating leverage is

   A. Rs.5000
   B. Nil
   C. Rs.5200
   D. Rs.2800

13. Earnings available to equity shareholders (ESH) Rs. 4050, equity shares 1000, EPS is Rs.

   A. 4.50
   B. 4.80
   C. 4.05
   D. 4.00

14. If an equity earnings is Rs. 80,000, cost of equity is 15%, then the market value is:

   A. Rs. 3,33,335
   B. Rs. 3,33,333
   C. Rs. 5,33,333
   D. Rs. 5,33,335

15. Cash outflow Rs. 4,00,000,cash inflows for 4 years Rs. 2,00,000 , Rs. 1,75,000, Rs. 25,000 and Rs. 2,00,000, the pay back period is;

   A. 2.67 years
   B. 2.76 years
   C. 2 year
   D. 3 years