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SUBJECT: FINANCIAL MANAGEMENT

SUB CODE: RCCCCM13

CLASS : III.B.COM

UNIT-I

OBJECTIVE TYPE QUESTIONS AND ANSWER

1. Investment Can Be Defined.

A. Person's Dedication To Purchasing A House Or Flat

B. Use Of Capital On Assets To Receive Returns

C. Usage Of Money On A Production Process Of Products And Services

D. Net Additions Made To The Nation's Capital Stocks

Answer: B

2. The Concept Of Financial Management Is.

A. Profit Maximization

B. All Features Of Obtaining And Using Financial Resources For Company Operations

C. Organization Of Funds

D. Effective Management Of Every Company

Answer: B

3. What Is The Primary Goal Of Financial Management?

A. To Minimize The Risk

B. To Maximize The Return

C. To Maximize The Owner's Wealth

D. To Raise Profit

Answer: B

4. GST Is A Consumption Of Goods And Service Tax Based On.

A. Development

B. Dividend

C. Destiny

D. Duration

E. Destination

Answer: E

5. The Finance Manager Is Accountable For.

A. Earning Capital Assets Of The Company

B. Effective Management Of A Fund

C Arrangement Of Financial Resources

D. Proper Utilization Of Funds

Answer: C

6. The Market Value Of A Share Is Responsible For.

A. The Investment Market

B The Government

C. Shareholders

D. The Respective Companies

Answer: A

7. The Capital Budget Is Associated With.

A. Long Terms And Short Terms Assets

B. Fixed Assets

C. Long Terms Assets

D. Short Term Assets

Answer: C

8. CAPM Stands For.

A. Capital Asset Pricing Model.

B. Capital Amount Printing Model.

C. Capital Amount Pricing Model.

D. Capital Asset Printing Model.

Answer: A

9. What Does Financial Leverage Measured?

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. % Variation In The Level Of Production

Answer: C

10. From The Below-Mentioned Items Which Are Financial Assets?

A. Machines

B. Bonds

C. Stocks

D. B And C

Answer: B

11.Finance Functions Are

A.Planning For Funds

B.Raising Of Funds

C.Allocation Of Resources

D.All Of The Above

Answer: D

12.Cost Of Depreciation Fund Computed As

A.Long Term Loan Capita

B.Dividend

C.Short Term Loan Capita

Answer: A

13.Payout Ratio Computed By

A (Dividend Per Share/Earnings Per Share)X 10(

B Net Profit X/Dividend X 100

C Share/Net Profit X 100

D Earnings Per Share/Dividend Per Share X 100

Answer: A

15.Which Formula May Be Used For Cost Of Preference Share Capital?

A. Rate Of Dividend/Net Proceeds X 100

B. Rate Of Dividend/Net Proceeds With Cash X 100

C. Net Proceeds/Capital

D. Dividend/Profit

Answer: A

16.What Should Be For Cost Of Retained Earning?

A. Brokerage Payable On Investment Of Dividend Received

B. Income Tax Rate Of Individual Shareholder

C. Dividend Which Would Be Distributed As An Alternate To Retained Earnings

D. All Of The Above

Answer:D

17.Which Of These Is An Appropriate Measure Of Individual Share Risk (I.E. The Risk Of A Single Share Held As Part Of A Portfolio)?

A Variance. Answer:B

B Beta.

C Standard Deviation.

D Correlation

UNIT II

1.The Use Of Personal Borrowing To Change The Overall Amount Of Financial Leverage To Which An Individual Is Exposed Is Called:

A.Homemade Leverage.

B.Dividend Recapture.

C.The Weighted Average Cost Of Capital.

D.Private Debt Placement.

E.Personal Offset

Answer:A

2.The Proposition That The Value Of The Firm Is Independent Of Its Capital Structure Is Called:

A.The Capital Asset Pricing Model.

B.MM Proposition I.

C.MM Proposition II.

D.The Law Of One Price.

E.The Efficient Markets Hypothesis.

Answer:B

3.The Tax Savings Of The Firm Derived From The Deductibility Of Interest Expense Is Called The:

A.Interest Tax Shield.

B.Depreciable Basis.

C.Financing Umbrella.

D.Current Yield.

E.Tax-Loss Carryforward Savings.

Answer:A

4.The Unlevered Cost Of Capital Is:

A.The Cost Of Capital For A Firm With No Equity In Its Capital Structure.

B.The Cost Of Capital For A Firm With No Debt In Its Capital Structure.

C.The Interest Tax Shield Times Pretax Net Income.

D.The Cost Of Preferred Stock For A Firm With Equal Parts Debt And Common Stock In Its Capital Structure.

E.Equal To The Profit Margin For A Firm With Some Debt In Its Capital Structure.

Answer:B

5.The Cost Of Capital For A Firm, WACC, In A Zero Tax Environment Is:

A.Equal To The Expected Earnings Divided By Market Value Of The Unlevered Firm.

B.Equal To The Rate Of Return For That Business Risk Class.

C.Equal To The Overall Rate Of Return Required On The Levered Firm.

D.Is Constant Regardless Of The Amount Of Leverage.

E.All Of The Above**.**

Answer:E

6.The Firm's Capital Structure Refers To:

A.The Way A Firm Invests Its Assets.

B.The Amount Of Capital In The Firm.

C.The Amount Of Dividends A Firm Pays.

D.The Mix Of Debt And Equity Used To Finance The Firm's Assets.

E.How Much Cash The Firm Holds.

Answer:D

7.A General Rule For Managers To Follow Is To Set The Firm's Capital Structure Such That:

A.The Firm's Value Is Minimized.

B.The Firm's Value Is Maximized.

C.The Firm's Bondholders Are Made Well Off.

D.The Firms Suppliers Of Raw Materials Are Satisfied.

E.The Firms Dividend Payout Is Maximized.

Answer:B

8.A Levered Firm Is A Company That Has:

A.Accounts Payable As The Only Liability On The Balance Sheet.

B.Has Some Debt In The Capital Structure.

C.Has All Equity In The Capital Structure.

D.All Of The Above.

E.None Of The Above.

Answer: B

9.A Firm Should Select The Capital Structure Which:

A.Produces The Highest Cost Of Capital.

B.Maximizes The Value Of The Firm.

C.Minimizes Taxes.

D.Is Fully Unlevered.

E.Has No Debt.

Answer: B

10.Financial Leverage Impacts The Performance Of The Firm By:

A.Increasing The Volatility Of The Firm's EBIT.

B.Decreasing The Volatility Of The Firm's EBIT.

C.Decreasing The Volatility Of The Firm's Net Income.

D.Increasing The Volatility Of The Firm's Net Income

E.None Of The Above.

Answer: D

11.Which Of The Following Items Is Not Allowable For Corporation Tax?

A.Dividend

B.Interest

C.Distribution Cost

D.Administrative Cost

E. None Of The Above

Answer:A

12.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.

Answer:A

13. 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 Ko Remains Constant Regardless Of Changes In Leverage.

D. That Interest Expense And Taxes Are Included In The Calculation.

Answer:C

14. The Traditional Approach Towards The Valuation Of A Company Assumes:

A. That The Overall Capitalization Rate Holds Constant With Changes In Financial Leverage.

B. That There Is An Optimum Capital Structure.

C. That Total Risk Is Not Altered By Changes In The Capital Structure.

D. That Markets Are Perfect.

Answer:B

15.Which Of The Following Items Is Not Allowable For Corporation Tax?

A.Dividend

B.Interest

C.Distribution Cost

D.Administrative Cost

Answer:A

UNIT III

1.A Firm With High Operating Leverage Has:

A. Low Fixed Costs In Its Production Process

B. High Variable Costs In Its Production Process.

C. High Fixed Costs In Its Production Process.

D. High Price Per Unit.

D. Low Price Per Unit

Answer:C

2.A Firm With High Operating Leverage Is Characterized By __________ While One With High Financial Leverage Is Characterized By __________.

A. Low Fixed Cost Of Production; Low Fixed Financial Costs

B. High Variable Cost Of Production; High Variable Financial Costs

C. High Fixed Costs Of Production; High Fixed Financial Costs

D. Low Costs Of Production; High Fixed Financial Costs

E. High Fixed Costs Of Production; Low Variable Financial Costs

Answer:C

3.A Firm's Degree Of Operating Leverage (DOL) Depends Primarily Upon Its

A..Sales Variability.

B..Level Of Fixed Operating Costs.

C.Closeness To Its Operating Break-Even Point.

D.Debt-To-Equity Ratio.

Answer :C

4. An EBIT-EPS Indifference Analysis Chart Is Used For

A. Evaluating The Effects Of Business Risk On EPS.

B. Examining EPS Results For Alternative Financing Plans At Varying EBIT Levels.

C. Determining The Impact Of A Change In Sales On EBIT.

D. Showing The Changes In EPS Quality Over Time.

Answer:B

5. EBIT Is Usually The Same Thing As:

A.Funds Provided By Operations.

B.Earnings Before Taxes.

C.Net Income.

D.Operating Profit.

Answer:D

6. In The Context Of Operating Leverage Break-Even Analysis, If Selling Price Per Unit Rises And All Other Variables Remain Constant, The Operating Break-Even Point In Units Will:

A. Fall.

B. Rise.

C. Stay The Same.

D. Still Be Indeterminate Until Interest And Preferred Dividends Paid Are Known.

Answer:A

7. If A Firm Has A DOL Of 5 At Q Units, This Tells Us That:

A. If Sales Rise By 5%, EBIT Will Rise By 5%.

B. If Sales Rise By 1%, EBIT Will Rise By 1%.

C. If Sales Rise By 5%, EBIT Will Fall By 25%.

D. If Sales Rise By 1%, EBIT Will Rise By 5%

Answer:D

8.The Dividend-Payout Ratio Is Equal To

A) The Dividend Yield Plus The Capital Gains Yield.

B) Dividends Per Share Divided By Earnings Per Share.

C) Dividends Per Share Divided By Par Value Per Share.

D) Dividends Per Share Divided By Current Price Per Share

Answer:B

9.Which Of The Following Statements Is Consistent With Dividend Irrelevance Theory?

A) Investment Decisions Are The Sole Determinant Of Shareholder Wealth

B) Making Homemade Dividends Causes Investors To Incur Transaction Costs

C) Companies With Stable Dividend Policies Build Up Shareholder Clienteles

D) Investors Like To Maintain The Real Value Of Their Dividend Payments.

E) Institutional Investors Like To Match Regular Payments With Regular Income

Answer:A

10. Which Of The Following Statements Lends Support To The Theory That Dividend Payments Are Relevant To The Value Of Ordinary Shares?

A) Investment Policy Is The Only Wealth-Creating Decision Made By Managers

B) Firms Establish Shareholder Clienteles Due To Their Dividend Policy

C) Shareholders Can Make Homemade Dividends By Selling Shares

D) Dividends Represent A Residual Payment To Shareholders

Answer:B

11.A (N) ___________ Is A Payment Of Additional Shares To Shareholders In Lieu Of Cash.

A. Stock Split

B. Stock Dividend

C. Extra Dividend

D. Regular Dividend

Answer:B

12.A (N) ___________ Occurs When There Is An Increase In The Number Of Shares Outstanding By Reducing The Par Value Of Stock.

A. Stock Split

B. Stock Dividend

C. Extra Dividend

D. Regular Dividend

Answer:A

13. A (N) ___________ Is The Expected Cash Dividend That Is Normally Paid To Shareholders.

A. Stock Split

B. Stock Dividend

C. Extra Dividend

D. Regular Dividend

Answer:D

14. ___________ Is A Nonrecurring Dividend Paid To Shareholders In Addition To The Regular Dividend.

A.A Stock Split

B.A Stock Dividend

C.An Extra Dividend

D.A Regular Dividend

Answer:C

15.The Increase In Risk To Equityholders When Financial Leverage Is Introduced Is Evidenced By:

A.Higher EPS As EBIT Increases.

B.A Higher Variability Of EPS With Debt Than All Equity.

C.Increased Use Of Homemade Leverage.

D.Equivalence Value Between Levered And Unlevered Firms In The Presence Of Taxes.

E.None Of The Above

Answer:B

16. Gordon's Model Of Dividend Relevance Is Same As

(A) No-Growth Model Of Equity Valuation,

(B)Constant Growth Model Of Equity Valuation,

(C)Price-Earning Ratio

(D) Inverse Of Price Earnings Ratio

Answer:B

17.If 'R' = 'Ke', Than MP By Walter's Model And Gordon's Model For Different Payout Ratios Would Be

(A) Unequal,

(B)Zero,

(C)Equal,

(D)Negative

Answer:C

18. Dividend Payout Ratio Is

(A) PAT÷ Capital, (B) DPS ÷ EPS,

(C)Pref. Dividend ÷ PAT,

(D)Pref. Dividend ÷ Equity Dividend

Answer:B

19. Dividend Distribution Tax Is Payable By

(A)Shareholders To Government

(B)Shareholders To Company,

(C)Company To Government,

(D)Holding To Subsidiary Company

Answer:B

20. Dividend Declared By A Company Must Be Paid In

A)20 Days,

(B)30 Days

(C)32 Days,

(D)42 Days

Answer:C

UNIT-IV

1.A Budget Is Not:

A.A Plan

B.A Part Of The Strategic Management Process

C.A Qualitative Statement

D.A Forecast

Answer:D

2.A Forecast Is Not:

A.A Budget

B.Based On Expert Opinion

C.A Prediction Of Future Events

D.Based On Extrapolation Of Past Data

Answer:A

3.Strategic Plans Are:

A.Budgets

B.Short-Term

C.Long-Term

D.Forecasts

Answer:C

4.What Are The Aspects Of Working Capital Management?

A. Inventory Management

B. Receivable Management

C. Cash Management

D. All Of The Above

Answer:D

5.Financial Analysts, "Working Capital" Means The Same Thing As ___________.

A.Total Assets

B.Fixed Assets

C.Current Assets

D.Current Assets Minus Current Liabilities.

Answer:C

6.The Amount Of Current Assets That Varies With Seasonal Requirements Is Referred To As Working Capital.

A.Permanent

B.Net

C.Temporary

D.Gross

Answer:C

7.Having Defined Working Capital As Current Assets, It Can Be Further Classified According To .A.Financing Method And Time

B.Rate Of Return And Financing Method

C.Time And Rate Of Return

D.Components And Time

Answer: D

8.Which Of The Following Would Be Consistent With An 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.

Answer: D

9.To Financial Analysts, "Net Working Capital" Means The Same Thing As ___________.

A.Total Assets

B.Fixed Assets

C.Current Assets

D.Current Assets Minus Current Liabilities.

Answer:D

10. The Transaction Motive For Holding Cash Is For

A .Safety Cushion

B.Daily Operations,

C.Purchase Of Assets

D.Payment Of Dividends.

Answer:B

11. Miller-Orr Model Deals With

A.Optimum Cash Balance,

B.Optimum Finished Goods

C.Optimum Receivables,

D.All Of The Above.

Answer:A

12.Float Management Is Related To

A.Cash Management

B.Inventory Management

C.Receivables Management,

D.Raw Materials Management.

Answer:A

13.Which Of The Following Is Not An Objective Of Cash Management ?

A.Maximization Of Cash Balance

B.Minimization Of Cash Balance

C.Optimization Of Cash Balance,

D.Zero Cash Balance.

Answer:C

14.Which Of The Following Is Not True Of Cash Budget ?

A.Cash Budget Indicates Timings Of Short-Term Borrowing, B.Cash Budget Is Based On Accrual Concept

C.Cash Budget Is Based On Cash Flow Concept

D.Repayment Of Principal Amount Of Law Is Shown In Cash Budget.

Answer:B

15. Baumol's Model Of Cash Management Attempts To:

A. Minimise The Holding Cost,

B.Minimization Of Transaction Cost,

C.Minimization Of Total Cost,

D.Minimization Of Cash Balance

Answer:C

16. Which Of The Following Is Not Considered By Miller-Orr Model?

A.Variability In Cash Requirement

B.Cost Of Transaction,

C.Holding Cost,

D.Total Annual Requirement Of Cash.

Answer:D

17.Marketable Securities Are Primarily

A. Equity Shares,'

B. Preference Shares,

C.Fixed Deposits With Companies

D.Short-Term Debt Investments.

Answer:D

18. Which Of The Following Is Not An Element Of Credit Policy?

A.Credit Terms

B.Collection Policy

C.Cash Discount Terms

D.Sales Price.

Answer:D

UNIT V

1. Bad Debt Cost Is Not Borne By Factor In Case Of

A. Pure Factoring,

B. Without Recourse Factoring

C. With Recourse Factoring,

D. None Of The Above.

Answer: C

2. Which Of The Following Is Not A Technique Of Receivables Management?

A. Funds Flow Analysis

B. Ageing Schedule,

C. Days Sales Outstanding D.Collection Matrix.

Answer: A

3. Which Of The Following Is Not A Part Of Credit Policy? A.Collection Effort,

B. Cash Discount,

C. Credit Standard,

D. Paying Practices Of Debtors.

Answer:D

4. Which Is Not A Service Of A Factor? A.Administrating Sales Ledger,

B. Advancing Against Credit Sales,

C. Assuming Bad Debt Losses,

D. None Of The Above.

Answer: D

5. Credit Policy Of A Firm Should Involve A Trade-Off Between Increased

A. Sales And Increased Profit

B. Profit And Increased Costs Of Receivables,

C. Sales And Cost Of Goods Sold,

D. None Of The Above.

Answer: B

6. EOQ Is The Quantity That Minimizes

A. Total Ordering Cost

B. Total Inventory Cost,

C. Total Interest Cost,

D. Safety Stock Level.

Answer: A

7. ABC Analysis Is Used In

A. Inventory Management

B. Receivables Management

C. Accounting Policies,

D. Corporate Governance.

Answer: A

8. If No Information Is Available, The General Rule For Valuation Of Stock For Balance Sheet Is

A. Replacement Cost, ,

B. Realizable Value, .

C. Historical Cost

D. Standard Cost

Answer: C

9. In ABC Inventory Management System, Class A Items May Require

A. Higher Safety Stock

B. Frequent Deliveries

C. Periodic Inventory System

D. Updating Of Inventory Records.

Answer:A

10. Inventory Holding Cost May Include

A. Material Purchase Cost,

B .Penalty Charge For Default,

C. Interest On Loan,

D.None Of The Above.

Answer:D

11. Use Of Safety Stock By A Firm Would

A. Increase Inventory Cost

B. Decrease Inventory Cost,

C. No Effect On Cost

D. None Of The Above.

Answer:A

12. Which Of The Following Is True For A Company Which Uses Continuous Review Inventory System

A. Order Interval Is Fixed,

B. Order Interval Varies,

C. Order Quantity Is Fixed,

D. Both (A) And (C).

Answer:B

13. EOQ Determines The Order Size When

A. Total Order Cost Is Minimum

B. Total Number Of Order Is Least

C. Total Inventory Costs Are Minimum

D. None Of The Above.

Answer:C

14. ABC Analysis Is Useful For Analyzing The Inventories:

A. Based On Their Quality,

B. Based On Their Usage And Value,

C. Based On Physical Volume,

D. All Of The Above.

Answer:B

15. If A = Annual Requirement, O = Order Cost And C = Carrying Cost Per Unit Per Annum, Then EOQ

A. $(2AO/C)^2$,

B. $\sqrt{2AO}/C$

C. $2A \div OC$, D.2AOC.

Answer:B

16. Inventory Is Generally Valued As Lower Of

A. Market Price And Replacement Cost

B. Cost And Net Realizable Value

C. Cost And Sales Value,

D. Sales Value And Profit.

Answer:B

17. Which Of The Following Is Not Included In Cost Of Inventory?

A. Purchase Cost

B. Transport In Cost,

C. Import Duty,

D. Selling Costs

Answer:D

18. Cost Of Not Carrying Sufficient Inventory Is Known As

A. Carrying Cost,
B.Holding Cost,

C. Total Cost

D. Stock-Out Cost

Answer:D

19. Receivables Management Deals With

A. Receipts Of Raw Materials,

B. Debtors Collection,

C. Creditors Management, D.Inventory
Management

Answer:B

20. Which Of The Following Is Related To Receivables Management?

A. Cash Budget,

B. Economic Order Quantity,

C. Ageing Schedule,

D. All Of The Above.

Answer:C