

Financial Management**1:30pm to 3:30pm****Semester – II****June 7, 2011****Section - A
(1 mark each)****Que. 1 :Financial decisions involve**

- a. Investment, financing and dividend decisions**
- b. Investment, financing and sales decisions
- c. Financing, dividend and cash decisions
- d. Investment, receivables and cash decisions

Que. 2 :The objective of financial management to increase the wealth of the shareholders means to

- a. Increase the physical assets owned by the firm
- b. Increase the market value of the shares of the firm**
- c. Increase the current assets of the firm
- d. Increase the cash balance of company

Que. 3 :Investment decision is also known as

- a. Capital decision
- b. Profit decision
- c. Capital budgeting decision**
- d. Working capital decision

Que. 4 : Overcapitalization means

- a. Total capital exceeds true value of its assets**
- b. Total value of assets exceeds its debt value
- c. Total capital is less than the warranted by its earning capacity
- d. Increase in dividend rates

Que. 5 :A has a perpetual bond of the face value of RS.1000 He receives an interest of Rs.60 annually. Its current value is Rs.600 what is the yield to maturity?

- a. 10%**
- b. 15%
- c. 12%
- d. 13%

Que. 6:An annuity for an infinite time period is _____

- a. Annual installment
- b. Present value
- c. Annuity
- d. Perpetuity**

Que. 7:_____ is the overall cost of all sources of finance.

- a. WACC**
- b. Total cost
- c. Cost of finance
- d. Cost of Equity

Que. 8: EBIT is calculated as

- a. **Q (S-V)-F**
- b. $Q (S-V) / F$.
- c. $Q-(S-V)-F$.
- d. None .

Que. 9: 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. 5000 .
- c. 10000 .
- d. 8000 .

Que. 10: Reorder level =

- a. **Maximum consumption * maximum reorder period**
- b. Minimum consumption * minimum consumption
- c. Maximum level * maximum consumption
- d. Minimum level * maximum consumption

Que. 11: The value of annuity of Rs. 5000 done on a yearly basis for 5 years yielding an interest of 5% p.a is

- a. Rs. 23,935 .
- b. Rs. 25,933 .
- c. Rs. 29,333 .
- d. **Rs. 29,335**

Que. 12: Material is priced based on a standard cost which is predetermined

- a. LIFO
- b. FIFO
- c. **Standard Price Method**
- d. Weighted Average Cost Method

Que. 13: These are the cost of purchasing the goods including transportation and handling costs.

- a. Ordering cost
- b. **Material cost**
- c. Carrying cost
- d. Reorder cost

Que. 14: The firm attempt to determine the order size that will minimize the total inventory costs is known as

- a. ABC analysis
- b. OPQ
- c. **EOQ**
- d. JIT

Que. 15: Fixed costs are those costs

- a. The Qty of which does not remain constant with the level of output
- b. **The Qty of which remains constant irrespective of the level of output**
- c. The Qty of which remains neutral with the level of output
- d. The Qty of which varies with the level of output

Que. 16: _____ refers to the mix of debt and equity in the capital structure of the firm.

- a. Operating leverage
- b. Cost of capital
- c. **Financial leverage**
- d. Capital structure

Que. 17: Operating leverage affects the firm's _____

- a. **EBIT**
- b. EPS
- c. PAT
- d. EBT

Que. 18: Financial leverage is also referred as _____

- a. Cost of capital
- b. **Trading on equity**
- c. Equity capitalization
- d. Financial structure

Que. 19: As per the NOI approach the _____ remains constant for all degree of leverage

- a. **Overall capitalization rate**
- b. Cost of equity
- c. Cost of debt
- d. Cost of retained earnings

Que. 20: Following are the criticisms of _____ approach

Risk perception
Convenience
Transaction cost
Taxes
Agency cost

- a. Operating Income Approach
- b. Net Operating Income approach
- c. **MM approach**
- d. Traditional Approach

Que. 21: It is the rate of return which makes the NPV of any project equal to zero

- a. **IRR**
- b. NPV
- c. PI
- d. Probability

Que. 22: _____ is the rate of interest which equates the PV of cash flows with the PV of cash flows.

- a. **IRR**
- b. NPV
- c. PI
- d. Probability

Que. 23: _____ is also known as Benefit Cost ratio

- a. **Profitability Index**

- b. IRR
- c. Standard deviation
- d. NPV

Que. 24: Discounted payback period for a project will be always _____ than simple pay back period.

- a. Lower
- b. Higher**
- c. Equal
- d. None of the above

Que. 25: _____ is defined as the length of time required to recover the initial cash outlay.

- a. Discounted payback period
- b. Payback period**
- c. Lead time
- d. MIRR

Que. 26: What is capital budgeting? It is the process of evaluating and selecting

- a. long term investments that lead to wealth maximization.**
- b. all investments that lead to wealth maximization.
- c. short term & long term that lead to profit maximization
- d. Budgets for fixed cost and variable cost

Que. 27: _____ is the minimum amount of investment required to be made in current assets.

- a. Permanent working capital**
- b. Temporary working capital
- c. Non- core current asset
- d. Net working capital

Que. 28: _____ is the excess of current asset over current liabilities

- a. Permanent working capital
- b. Temporary working capital
- c. Net working capital**
- d. Gross working capital

Que. 29: Capital structure is a _____ plan

- a. Operating
- b. Financing**
- c. Budgeting
- d. Costing

Que. 30: Any change in the financial leverage will have a corresponding change in the overall cost of capital and also the total value of the finance. This refers to:

- a. Net income approach**
- b. Net operating income approach
- c. Miller & Modigliani approach
- d. Traditional approach

Que. 31: Cash management excludes:

- a. Management of cash inflows and outflows of the firm
- b. Cash management within the firm
- c. Management of cash balances
- d. Management of inventory**

Que. 32: Customers are bound to maintain a minimum balance in their accounts in order to avail services such as a transfer of funds, purchase of DD, MT etc. Such balance are known as :

- a. Speculative motive
- b. Transactive motive
- c. Precautionary motive
- d. Compensating motive**

Que. 33: Since the rupee received today has more value, a rational investor would prefer

- a. Future receipts
- b. Partly future & partly current receipts
- c. Current receipts**
- d. None

Que. 34: Time value of money is the value of:

- a. money after certain period of time
- b. a unit of money at different time intervals**
- c. asset including cash at different time intervals
- d. real money (inflation adjusted)

Que. 35: Why should money have time value? Choose the inappropriate statement.

- a. Money can be employed productively to generate real returns
- b. Money can be employed productively to generate nominal rate of return**
- c. During inflation current receipts command higher purchasing power
- d. Due to risk & uncertainty, people prefer current consumption to future consumption

Que. 36: The variation of actual cash flow from the expected cash flows is termed

- a. Risk**
- b. Probability of expected outcomes
- c. Probability of unexpected cash inflows
- d. Discounted cash flow

Que. 37: _____ risk is affected by factors such as inflation, changes in interest rate etc

- a. Project - specific risk
- b. Competition risk
- c. Market risk**
- d. Industry -specific risk

Que. 38: _____ measures the variability of expected return of the project

- a. market or better risk
- b. Portfolio risk
- c. International risk
- d. Stand-alone risk** Make comment or override grade

Que. 39: Capital budgeting decision commits a firm to invest its current fund to generate

- a. Future capital appreciation
- b. A series of cash flows in future**
- c. A series of cash flows immediately after the launch of the project
- d. Current income & assets

Que. 40: Capital budgeting decision involve evaluation of specific

- a. Operating decision
- b. Investment decision**
- c. Working capital decision
- d. Operating & Investment decision

Section - B
(2 marks each)

Que. 41: The following information is available in respect of a firm:

Capitalization rate = 10%

Earnings per share = Rs.50

Assumed rate of return on investment: 12%

Show the effect of dividend policy on market price of shares applying Walter's formula when DP ratio is 40%.

- a. 560**
- b. 860
- c. 960
- d. 1060

Que. 42: Assume rate of return on investment 8%

- a. 520
- b. 440**
- c. 480
- d. 500

Que. 43: Assume rate of return on investment 10%

- a. 500**
- b. 520
- c. 780
- d. 980

Que. 44: Annual usage Rs.200000

Cost of placing and receiving one order is Rs.80

Annual carrying cost 10% of inventory value

Find out EOQ

- a. 14833**
- b. 15683
- c. 14658
- d. 15648

Que. 45: Y deposit 5000 at the beginning of each year for 5 years and the deposit earns a compound interest @8% p.a. How much money he will have at the end of 5 years?

- a. **31675**
- b. 32567
- c. 32658
- d. 32654

Que. 46:Financing mix decisions are investment decisions and have no impact on the _____ of the firm.

- a. Financial earnings
- b. **Operating earnings**
- c. Total earnings .
- d. Retained earnings .

Que. 47:In which approach does cost of debt remains constant until a certain degree of leverage and thereafter rises at an increasing rate?

- a. Net income approach .
- b. Net operating income approach .
- c. **Traditional approach**
- d. M M approach .

Que. 48:What is the contribution of capital structure on the objective of the firm?

- a. **Ideal mix of long term finances results in maximizing market price of the share**
- b. Optimum capital structure results in higher dividend payout .
- c. Ideal mix of short term & long term finances results in increase in cost of capital .
- d. None .

Que. 49:Capital Budgeting decisions are strategic in nature because

- a. **They evaluate the profitability of the project & hence the profile of the organization.**
- b. They evaluate the profitability of the products & services .
- c. They evaluating the budgeting of fixed cost. .
- d. They create wealth for the management employees. .

Que. 50:_____ and revenue generation are the two important categories of capital budgeting .

- a. Planning process .
- b. **Cost reduction**
- c. Expansion programmer .
- d. Capital cost .

Que. 51:Consider a eight-year, 12% coupon bond with a par value of Rs. 1,000 on which, interest is payable semi-annually. Find the value of the bond if the required rate on this bond is 14%.

- a. 955.82 .
- b. **905.82**
- c. 855.82 .
- d. 900.55 .

Que. 52:Consider a Rs. 1,000 par value bond carrying a coupon rate of 9% and maturing after 8 years. The bond is currently selling at Rs. 800. What is the YTM of the bond?

- a. 12% .
- b. 12.1% .
- c. 13.1%**
- d. 13.3% .

Que. 53: EBIT is calculated as

- a. $Q(S-V)-F$**
- b. $Q(S-V) / F$.
- c. $Q-(S-V)-F$.
- d. None .

Que. 54: Which type of cost vary in direct proportion to output and sale?

- a. Fixed cost .
- b. Variable cost**
- c. Semi variable cost .
- d. Sunk cost .

Que. 55: Which among the following is the ordering cost ?

- a. Receiving , Inspecting & Receiving at the warehouse**
- b. Insurance .
- c. Taxes .
- d. Obsolescence .

Que. 56: _____ is defined as the order quantity that minimizes the total cost associated with inventory management.

- a. Carrying cost .
- b. Storage cost .
- c. Economic order quantity**
- d. ABC system .

Que. 57: The credit policy variables excludes _____

- a. Credit standards .
- b. Credit period .
- c. Credit policy**
- d. Cash discounts .

Que. 58: If a firm allows to its customers 20 days of credit with no inducement for early payment it is stated as :

- a. 'net 30' .
- b. 'net 20'**
- c. 'net 2/10' .
- d. 'Gross 20' .

Que. 59: Financing decisions relate to the acquisition of funds at the least cost. What are the dimensions of cost?

- a. Fixed cost and Variable cost .
- b. Explicit cost and Implicit cost**
- c. Related cost and sunk cost .
- d. Marginal cost and full cost .

Que. 60: 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. theoretical .
- d. practical .

Section - C
(4 marks each)

Que. 61: State whether the following statements are True or False

- Payment of dividend involves legal as well as financial considerations
- Stock dividend affect liquidity position of the company
- MM model suggests that dividend decision affect the value of firm
- A company should follow an ad-hoc dividend policy

- a. True, False, False, False**
- b. True, false, true, false
- c. False, false, false, false
- d. True, true, true, true

Que. 62: Indicate whether each of the following statement is true or false

- Inventory management is essential because investments in stock are big
- The time required to process and execute an order is called lead time
- Reorder level is the quantity of materials which must be kept in stock
- Ordering cost are cost of purchasing materials

- a. True, true, false, true**
- b. True, true, true, true
- c. False, false, false, true
- d. True false, true, false

Que. 63: Radha company's existing sales are Rs.180 lakh. It is currently extending a credit period of 'net 30 days' to its customers. The company's contribution to sales ratio is 20% and the cost of fund is 15%. The company is contemplating to increase its sales by Rs.16 lakh to be achieved by means of lengthening the existing period to 'net 45 days'. The bad debts losses on additional sales is expected to be 5% Calculate incremental profit, increase in receivables on existing sales.

- a. 60000, 750000**
- b. 56000, 850000
- c. 69000, 785000
- d. 45000, 689000

Que. 64: Radha company's existing sales are Rs.180 lakh. It is currently extending a credit period of 'net 30 days' to its customers. The company's contribution to sales ratio is 20% and the cost of fund is 15%. The company is contemplating to increase its sales by Rs.16 lakh to be achieved by means of lengthening the existing period to 'net 45 days'. The bad debts losses on additional sales is expected to be 5% Calculate investment in receivables on new sales, cost of additional investment in receivables

- a. 160000, 136500**
- b. 136500, 200000
- c. 350000, 135600
- d. 150000, 231560

Que. 65: The new machine will cost Rs.160000 and the value of existing machine is Rs.40000 and can be sold at RS.20000. Calculate the depreciation for the above information for 5 years @ 25% p.a. by DBM method.

- a. 35000,25000,20000,15000,10000
- b. 45000,33750,25312,18984,14238**
- c. 25000,25648,23546,25689,12547
- d. 36000,25698,36548,35698,12365

Que. 66: 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

Que. 67: 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 payback period is;

- a. 2.67 years**
- b. 2.76 years
- c. 2 year
- d. 3 years

Que. 68: ROI is 15% , ke is 11%, EPS Rs. 10, DP ratio zero, the DP is Rs.

- a. 132.97
- b. 123.79
- c. 123.97**
- d. 129.37

Que. 69: Based on NPV , project A has 16,320 , B = 10,800, C=9,820 the ranking of project is :

- a. ABC**
- b. ACB .
- c. CBA .
- d. BAC .

Que. 70: company is considering an investment proposal to install new milling controls at a cost of Rs. 50,000. The facility has a life expectancy of 5 years. The cash flow after tax is Rs. 10,000 , 10,450, 11,800, 12,250, Rs. 16750. Find the profitability index at 10% discount rate.

- a. .10 .
- b. .907**
- c. .807 .
- d. .997 .

Que. 71: A relaxation credit policy is considered which would result in the sales increase by Rs 1,50,00,000. Contribution margin is 20%. The incremental contribution is Rs_____.

- a. 20,00,000 .
- b. 15,00,000 .
- c. 10,00,000 .
- d. 30,00,000**

Que. 72: Investment in sales is Rs.1,50,00,000. Average collection period is 40 days, marginal contribution 20%, assume 360-day year, the incremental investment in Receivables is Rs_____.

- a. 13,33,333
- b. 31,33,333 .
- c. 33,33,311 .
- d. 33,33,331 .

Que. 73: The purpose of holding inventory is to achieve _____ through cost reduction and increased sales volume. Shortage of stock or longer waiting period affect _____. Firms may order large quantity to avail _____. Due to uncertainty in supply and longer lead time firms should maintain _____ levels of inventory.

- a. 1. Proficiency 2. Inventory level 3. Commission 4. Lower
- b. 1. Talent 2. Purchase 3. Free gifts 4. Medium
- c. 1. Efficiency 2. Sales 3. Discounts 4. High
- d. 1. Smartness 2. Working capital 3. Royalty 4. very low

Que. 74: An investment will have an initial outlay of Rs.100000. It is expected to generate cash inflows as follows: 40000, 50000, 15000, 30000. Risk free rate of interest is 10%. Risk premium is 10% compute NPV using risk adjusted discount rate.

- a. (8835)
- b. (3568)
- c. 1254
- d. 5648

Que. 75:

A project costs Rs.25000 and is expected to generate cash inflows as under for 5 years: 10000, 8000, 9000, 6000, 7000. The cost of capital is 12%.

Compute NPV of the project.

- a. 4499
- b. 4589
- c. 5689
- d. 9857