B COM –FINANCE & TAXATION III SEM OPTIONAL

FINANCIAL MANAGEMENT

1.The appropriate objective of an enterprise is;
(a)Maximisation of sale (b) Maximisation of owners wealth.
(c)Maximisation of profits. (d) None of these.
2. The job of a finance manager is confined to
(a)Raising funds
(b) Management of cash
(c)Raising of funds and their effective utilization.
(d) None of these.
3. Financial decision involve;
(a)Investment ,financing and dividend decision
(b) Investment ,financing and sales decision
(c)Financing , dividend and cash decision
(d) None of these.
4. Net Profit Ratio Signifies:
(a) Operational Profitability (b) Liquidity Position
(c) Solvency (d)Profit
5. Working Capital Turnover measures the relationship of Working Capital with:
(a)Fixed Assets (b)Sales (c)Purchases (d)Stock.
6. Dividend Payout Ratio is:
(a)PAT Capital (b)DPS ÷ EPS
(c) Pref. Dividend ÷ PAT (d) Pref. Dividend ÷ Equity Dividend
7. Inventory Turnover measures the relationship of inventory with:
(a) Average Sales (b)Cost of Goods Sold
(c)Total Purchases (d) Total Assets
8. The term 'EVA' is used for:
(a)Extra Value Analysis (b)Economic Value Added
(c)Expected Value Analysis (d)Engineering Value Analysis
9. Return on Investment may be improved by:
(a)Increasing Turnover (b) Reducing Expenses
(c)Increasing Capital Utilization (d)All of the above
10. In Current Ratio, Current Assets are compared with:
(a)Current Profit (b)Current Liabilities
(c)Fixed Assets (d)Equity Share Capital
11. There is deterioration in the management of working capital of XYZ Ltd. What does it refer to?
(a)That the Capital Employed has reduced,
(b)That the Profitability has gone up,
(c)That debtors collection period has increased,

(d)That Sales has decreased.
12. Debt to Total Assets Ratio can be improved by:
(a)Borrowing More (b)Issue of Debentures
(c)Issue of Equity Shares (d)Redemption of Debt.
13. Ratio of Net Income to Number of Equity Shares known as:
(a)Price Earnings Ratio (b) Net Profit Ratio,
(c)Earnings per Share (d) Dividend per Share.
14. A Current Ratio of Less than One means:
(a)Current Liabilities < Current Assets
(b)Fixed Assets > Current Assets
(c)Current Assets < Current Liabilities
(d) Share Capital > Current Assets
15. A firm has Capital of 10,00,000; Sales of 5,00,000; Gross Profit of . 2,00,000 and Expenses of . 1,00,000. What is the Net Profit Ratio?
(a)20% (b) 50% (c)10% (d)40%
16. Suppliers and Creditors of a firm are interested in
(a)Profitability Position (b)Liquidity Position
(c)Market Share Position (d) Debt Position
17. Which of the following is a measure of Debt Service capacity of a firm?
(a)Current Ratio (b)Acid Test Ratio
(c) Interest Coverage Ratio (d) Debtors Turnover
18. Gross Profit Ratio for a firm remains same but the Net Profit Ratio is decreasing. The reason for such behavior could be:
(a) Increase in Costs of Goods Sold (b)If Increase in Expense
(c) Increase in Dividend (d)Decrease in Sales.
19. Which of the following statements is correct?
(a) A Higher Receivable Turnover is not desirable,
(b) Interest Coverage Ratio depends upon Tax Rate,
(c)Increase in Net Profit Ratio means increase in Sales,
(d) Lower Debt-Equity Ratio means lower Financial Risk.
20. Debt to Total Assets of a firm is .2. The Debt to Equity boo would be:
(a) 0.80 (b)0.25 (c) 1.00 (d)0.75
21. Which of the following helps analysing return to equity Shareholders?
(a) Return on Assets (b) Earnings Per Share
(c) Net Profit Ratio (d)Return on Investment.
22. In Inventory Turnover calculation, what is taken in the numerator?
(a) Sales (b)Cost of Goods Sold,
(c)Opening Stock (d) Closing Stock.
23.Financial Planning deals with:
(a) Preparation of Financial Statements (b)Planning for a Capital Issue
(c) Preparing Budgets (d)All of the above
24.Financial planning starts with the preparation of:
(a) Master Budget (b) Cash Budget
(c) Balance Sheet (d)None of the above.
25. Process of Financial Planning ends with:
(a) Preparation of Projected Statements

(b) Preparation of Actual Statements
(c) Comparison of Actual with Projected
(d) Ordering the employees that projected figures m come true.
26.Capital Budgeting is a part of:
(a)Investment Decision (b) Working Capital Management
(c) Marketing Management (d) Capital Structure
27.Capital Budgeting deals with:
(a) Long-term Decisions (b) Short-term Decisions
(c) Both (a) and (b) (d) Neither (a) nor (b)
28.Which of the following is not used in Capital Budgeting?
(a) Time Value of Money (b) Sensitivity Analysis
(c) Net Assets Method (d) Cash Flows.
29.Capital Budgeting Decisions are:
(a) Reversible (b) Irreversible (c) Unimportant (d)All of the above
30.Which of the following is not incorporated in Capital Budgeting?
(a) Tax-Effect (b) Time Value of Money
(c) Required Rate of Return (d) Rate of Cash Discount
31.Which of the following is not a capital budgeting decision?
(a) Expansion Programme (b) Merger
(c) Replacement of an Asset (d) Inventory Level
32.A sound Capital Budgeting technique is based on:
(a) Cash Flows (b) Accounting Profit
(c) Interest Rate on Borrowings (d) Last Dividend Paid
33.Which of the following is not a relevant cost in Capital Budgeting?
(a) Sunk Cost (b) Opportunity Cost
(c) Allocated Overheads (d) Both (a) and (c) above.
34.Capital Budgeting Decisions are based on:
(a) Incremental Profit (b) Incremental Cash Flows
(c) Incremental Assets (d) Incremental Capital
35. Which of the following does not effect cash flows proposal?
(a) Salvage Value (b) Depreciation Amount
(c) Tax Rate Change (d) Method of Project Financing
36. Cash Inflows from a project include:
(a) Tax Shield of Depreciation (b) After-tax Operating Profits
(c) Raising of Funds (d) Both (a) and (b)
37. Which of the following is not true with reference capital budgeting?
(a) Capital budgeting is related to asset replacement decisions,
(b) Cost of capital is equal to minimum required return,
(c) Existing investment in a project is not treated as sunk cost,
(d) Timing of cash flows is relevant.
38. Which of the following is not followed in capital budgeting?
(a) Cash flows Principle (b) Interest Exclusion Principle
(c) Accrual Principle (d) Post-tax Principle
39. Depreciation is incorporated in cash flows because it:
(a) Is unavoidable cost (b) Is a cash flow
(c) Reduces Tax liability (d) Involves an outflow

40. Which of the following is not true for capital budgeting?
(a) Sunk costs are ignored,
(b)Opportunity costs are excluded,
(c)Incremental cash flows are considered,
(d) Relevant cash flows are considered
41. Which of the following is not applied in capital budgeting?
(a) Cash flows be calculated in incremental terms
(b) All costs and benefits are measured on cash basis,
(c) All accrued costs and revenues be incorporated,
(d) All benefits are measured on after-tax basis.
42. Evaluation of Capital Budgeting Proposals is based on Cash Flows because:
(a) Cash Flows are easy to calculate (b)Cash Flows are suggested by SEBI
(c) Cash is more important than profit (d) None of the above
43. Which of the following is not included in incremental A flows?
(a) Opportunity Costs (b)Sunk Costs
(c) Change in Working Capital (d) Inflation effect
44. A proposal is not a Capital Budgeting proposal if it:
(a) is related to Fixed Assets (b) brings long-term benefits
(c) brings short-term benefits only (d) has very large investment.
45. In Capital Budgeting, Sunk cost is excluded because it is:
(a) of small amount (b) not incremental
(c) not reversible (d) All of the above
46. Savings in respect of a cost is treated in capital budgeting as:
(a) An Inflow (b) An Outflow (c) Nil (d) None of the above.
47. In capital budgeting, the term Capital Rationing implies:
(a) That no retained earnings available
(b) That limited funds are available for investment
(c) That no external funds can be raised,
(d) That no fresh investment is required in current year
48. Feasibility Set Approach to Capital Rationing can be applied in:
(a) Accept-Reject Situations (b) Divisible Projects
(c) Mutually Exclusive Projects (d) None of the above
49. In case of divisible projects, which of the following can be used to attain maximum NPV?
(a) Feasibility Set Approach (b) Internal Rate of Return
(c) Profitability Index Approach (d) Any of the above
50. In case of the indivisible projects, which of the following may not give the optimum result?
(a) Internal Rate of Return (b) Profitability Index
(c) Feasibility Set Approach (d) All of the above
51. Profitability Index, when applied to Divisible Projects, impliedly assumes that:
(a) Project cannot be taken in parts
(b) NPV is linearly proportionate to part of the project taken up
(c) NPV is additive in nature
(d) Both (b) and (c)
52. If there is no inflation during a period, then the Money Cashflow would be equal to:

(a) Present Value (b) Real Cash flow
(c) Real Cash flow + Present Value (d) Real Cash flow - Present Value
53. The Real Cashflows must be discounted to get the present value at a rate equal to:
(a) Money Discount Rate (b) Inflation Rate
(c) Real Discount Rate (d) Risk free rate of interest
54. Real rate of return is equal to:
(a) Nominal Rate × Inflation Rate (b) Nominal Rate ÷ Inflation Rate
(c) Nominal Rate - Inflation Rate (d) Nominal Rate + Inflation Rate
55. If the Real rate of return is 10% and Inflation s Money Discount Rate is:
(a) 14.4% (b) 2.5% (c) 25% (d) 14%
56. If the Money Discount Rate is 19% and Inflation Rate is 12%, then the Real Discount Rate is:
(a) 7% (b) 5% (c) 5.70% (d) 6.25%
57. Money Discount Rate if equal to:
(a) (1 + Inflation Rate) (1 + Real Rate)-1
(b) (1 + Inflation Rate) 4- (1 + Real Rate)-1
(c) (1 + Real Rate) 4- (1 + Inflation Rate)-1
(d) (1 + Real Rate) + (1 + Inflation Rate)-1
58. Real Discount Rate is equal to:
(a) (1 + Inf. Rate) (1 + Money D Rate)-1
(b) (1 + Money D Rate) + (1 + Inf. Rate)-1
(c) (1 + Money D Rate) 4- (1 + Inf. Rate)-1
(d) (1 + Money D Rate) - (1 + Inf. Rate)-1
59. Two mutually exclusive projects with different economic lives can be compared on the basis of
(a) Internal Rate of Return (b) Profitability Index
(c) Net Present Value (d) Equivalent Annuity Value
60. Risk in Capital budgeting implies that the decision-maker knows____________of the cash flows.
(a) Variability (b)Probability (c) Certainty (d) None of the above
61. In Certainty-equivalent approach, adjusted cash flows are discounted at:
(a) Accounting Rate of Return (b) Internal Rate of Return
(c) Hurdle Rate (d) Risk-free Rate
62. Risk in Capital budgeting is same as:
(a) Uncertainty of Cash flows (b) Probability of Cash flows
(c) Certainty of Cash flows (d) Variability of Cash flows
63. Which of the following is a risk factor in capital budgeting?
(a) Industry specific risk factors (b) Competition risk factors
(c) Project specific risk factors (d) All of the above
64. In Risk-Adjusted Discount Rate method, the normal rate of discount is:
(a) Increased (b) Decreased
(c) Unchanged (d) None of the above
65. In Risk-Adjusted Discount Rate method, which one is adjusted?
(a) Cash flows (b) Life of the proposal
(c) Rate of discount (d) Salvage value
66. NPV of a proposal, as calculated by RADR real CE Approach will be:

(a) Same (b) Unequal (c) Both (a) and (b) (d) None of (a) and (b)
67. Risk of a Capital budgeting can be incorporated
(a) Adjusting the Cash flows (b) Adjusting the Discount Rate
(c) Adjusting the life (d) All of the above
68. Which element of the basic NPV equation is adjusted by the RADR?
(a) Denominator (b) Numerator (c) Both (d) None
69. Cost of Capital refers to:
(a) Flotation Cost (b) Dividend
(c) Required Rate of Return (d) None of the above.
70. Which of the following sources of funds has an Implicit Cost of Capital?
(a) Equity Share Capital (b) Preference Share Capital
(c) Debentures (d) Retained earnings
71. Which of the following has the highest cost of capital?
(a) Equity shares (b) Loans (c) Bonds (d) Preference shares
72. Cost of Capital for Government securities is also known as:
(a) Risk-free Rate of Interest (b) Maximum Rate of Return
(c) Rate of Interest on Fixed Deposits (d) None of the above
73. Cost of Capital for Bonds and Debentures is calculated on:
(a) Before Tax basis (b) After Tax basis
(c) Risk-free Rate of Interest basis (d) None of the above.
74. Weighted Average Cost of Capital is generally denoted by:
(a) kA (b) kw (c) k0 (d) kc
75. Which of the following cost of capital require tax adjustment?
(a) Cost of Equity Shares (b) Cost of Preference Shares
(c) Cost of Debentures (d) Cost of Retained Earnings.
76. Which is the most expensive source of funds?
(a) New Equity Shares (b) New Preference Shares
(c) New Debts (d) Retained Earnings
77. Marginal cost of capital is the cost of:
(a) Additional Sales (b) Additional Funds
(c) Additional Interests (d) None of the above.
78. In case the firm is all-equity financed, WACC would be equal to
(a) Cost of Debt (b) Cost of Equity
(c) Neither (a) nor (b) (d) Both (a) and (b)
79. In case of partially debt-financed firm, k0 is less
(a) Kd (b) Ke
(c) Both (a) and (b) (d) None of the above
80. In order to calculate Weighted Average Cost of weights may be based on:
(a) Market Values (b) Target Values
(c) Book Values (d) All of the above
81. Firm's Cost of Capital is the average cost of:
(a) All sources (b) All borrowings
(c) Share capital (d) Share Bonds & Debentures
82. An implicit cost of increasing proportion of debt is:
(a) Tax should would not be available on new debt
(b) P.E. Ratio would increase

(c) Equity shareholders would demand higher return
(d) Rate of Return of the company would decrease
83. Cost of Redeemable Preference Share Capital is:
(a) Rate of Dividend
(b) After Tax Rate of Dividend
(c) Discount Rate that equates PV of inflows and out-flows relating to capital
(d) None of the above
84. Which of the following is true?
(a) Retained earnings are cost free
(b) External Equity is cheaper than Internal Equity
(c) Retained Earnings are cheaper than External Equity
(d) Retained Earnings are costlier than External Equity
85. Cost of capital may be defined as:
(a)Weighted Average cost of all debts
(b) Rate of Return expected by Equity Shareholders
(c) Average IRR of the Projects of the firm
(d)Minimum Rate of Return that the firm should earn
86. Minimum Rate of Return that a firm must earn in order to satisfy its investors, is also known as:
(a) Average Return on Investment (b)Weighted Average Cost of Capital
(c) Net Profit Ratio (d) Average Cost of borrowing
87. Cost Capital for Equity Share Capital does not imply that:
(a)Market Price is equal to Book Value of share,
(b)Shareholders are ready to subscribe to right issue,
(c).Market Price is more than Issue Price,
(d) AC of the three above.
88. In order to calculate the proportion of equity financing used by the company, the following should be used:
(a) Authorised Share Capital,
(b)Equity Share Capital plus Reserves and Surplus,
(c)Equity Share Capital plus Preference Share Capital,
(d) Equity Share Capital plus Long-term Debt.
89. The term capital structure denotes:
(a) Total of Liability side of Balance Sheet,
(b)Equity Funds, Preference Capital and Long term Debt
(c) Total Shareholders Equity,
(d) Types of Capital Issued by a Company.
90. Debt Financing is a cheaper source of finance because of:
(a) Time Value of Money (b) Rate of Interest,
(c) Tax-deductibility of Interest (d) Dividends not Payable to lenders.
91. In order to find out cost of equity capital under CAPM, which of the following is not required:
(a) Beta Factor (b) Market Rate of Return,
(c) Market Price of Equity Share (d) Risk-free Rate of Interest.
92. Tax-rate is relevant and important for calculation of specific cost of capital of:
(a) Equity Share Capital (b) Preference Share Capital

(c) Debentures (d) (a) and (b) above.
93. Advantage of Debt financing is
(a) Interest is tax-deductible (b) It reduces WACC
(c) Does not dilute owners control (d) All of the above.
94. Cost of issuing new shares to the public is known as:
(a) Cost of Equity (b) Cost of Capital
(c) Flotation Cost (d) Marginal Cost of Capital.
95. Cost of Equity Share Capital is more than cost of debt because:
(a) Face value of debentures is more than face value of shares,
(b) Equity shares have higher risk than debt,
(c) Equity shares are easily saleable
(d) All of the three above.
96. Which of the following is not a generally accepted approach for Calculation of Cost of Equity?
(a) CAPM (b) Dividend Discount Model
(c) Rate of Pref. Dividend Plus Risk (d) Price-Earnings Ratio
97. Operating leverage helps in analysis of:
(a) Business Risk (b) Financing Risk
(c) Production Risk (d) Credit Risk
98. Which of the following is studied with the help of financial leverage?
(a) Marketing Risk (b) Interest Rate Risk
(c) Foreign Exchange Risk (d) Financing risk
99. Combined Leverage is obtained from OL and FL by their:
(a) Addition (b) Subtraction (c) Multiplication (d) Any of these
100. High degree of financial leverage means:
(a) High debt proportion (b) Lower debt proportion
(c) Equal debt and equity (d) No debt
101. Operating leverage arises because of:
(a) Fixed Cost of Production (b) Fixed Interest Cost
(c) Variable Cost (d) None of the above
102. Financial Leverage arises because of:
(a) Fixed cost of production (b) Variable Cost
(c) Interest Cost (d) None of the above
103. Operating Leverage is calculated as:
(a) Contribution ÷ EBIT (b) EBIT÷PBT
(c) EBIT ÷Interest (d) EBIT ÷Tax
104. Financial Leverage is calculated as:
(a) EBIT÷ Contribution (b) EBIT÷ PBT
(c) EBIT÷ Sales (d) EBIT ÷ Variable Cost
105. Which combination is generally good for firms
(a) High OL, High FL (b) Low OL, Low FL
(c) High OL, Low FL (d) None of these
106. Combined leverage can be used to measure the relationship between:
(a) EBIT and EPS (b) PAT and EPS,
(c) Sales and EPS, (d) Sales and EBIT
107. FL is zero if:

(a) EBIT = Interest (b) EBIT = Zero,
(c) EBIT = Fixed Cost, (d) EBIT = Pref. Dividend
108. Business risk can be measured by:
(a) Financial leverage (b) Operating leverage
(c) Combined leverage (d) None of the above
109. Financial Leverage measures relationship between
(a) EBIT and PBT (b) EBIT and EPS
(c) Sales and PBT (d) Sales and EPS
110. Use of Preference Share Capital in Capital structure
(a) Increases OL (b) Increases FL (c) Decreases OL (d) Decreases FL
111. Relationship between change in sales and change m is measured by:
(a) Financial leverage (b) Combined leverage
(c) Operating leverage (d) None of the above
112. Operating leverage works when:
(a) Sales Increases (b) Sales Decreases
(c) Both (a) and (b) (d) None of (a) and (b)
113. Which of the following is correct?
(a) CL= OL + FL (b) CL=OL-FL (c) OL= OL × FL (d) OL=OL÷FL
114. If the fixed cost of production is zero, which one of the following is correct?
(a) OL is zero (b) FL is zero (c) CL is zero (d) None of the above
115. If a firm has no debt, which one is correct?
(a) OL is one (b) FL is one (c) OL is zero (d)FL is zero
116. If a company issues new share capital to redeem debentures, then:
(a) OL will increase (b) FL will increase
(c) OL will decrease (d) FL will decrease
117. If a firm has a DOL of 2.8, it means:
(a) If sales increase by 2.8%, the EBIT will increase by 1%,
(b) If EBIT increase by 2.896, the EPS will increase by 1 %,
(c) If sales rise by 1%, EBIT will rise by 2.8%,
(d) None of the above
118. Higher OL is related to the use of higher:
(a) Debt (b) Equity (c) Fixed Cost (d) Variable Cost
119. Higher FL is related the use of:
(a) Higher Equity (b) Higher Debt
(c) Lower Debt (d) None of the above
120.In order to calculate EPS, Profit after Tax and Preference Dividend is divided by:
(a) MP of Equity Shares (b) Number of Equity Shares
(c) Face Value of Equity Shares (d) None of the above.
121.Trading on Equity is
(a) Always beneficial (b) May be beneficial
(c) Never beneficial (d) None of the above.
122. Benefit of 'Trading on Equity' is available only if:
(a) Rate of Interest < Rate of Return (b) Rate of Interest > Rate of Return
(c) Both (a) and (b) (d) None of (d) and (b)
123. Indifference Level of EBIT is one at which:
(a) EPS is zero (b) EPS is Minimum

(c) EPS is highest (d) None of these
124. Financial Break-even level of EBIT is one at which:
(a) EPS is one (b) EPS is zero
(c) EPS is Infinite (d) EPS is Negative
125. Relationship between change in Sales and d Operating Profit is known as:
(a) Financial Leverage (b) Operating Leverage
(c) Net Profit Ratio (d) Gross Profit Ratio
126. If a firm has no Preference share capital, Financial Break even level is defined as equal to -
(a) EBIT (b) Interest liability
(c) Equity Dividend (d) Tax Liability
127. At Indifference level of EBIT, different capital have
(a) Same EBIT (b) Same EPS (c) Same PAT (d) Same PBT
128. Which of the following is not a relevant factor m EPS Analysis of capital structure?
(a) Rate of Interest on Debt (b) Tax Rate
(c) Amount of Preference Share Capital (d) Dividend paid last year
129. For a constant EBIT, if the debt level is further increased then
(a) EPS will always increase (b) EPS may increase
(c)EPS will never increase (d) None of the above
130. Between two capital plans, if expected EBIT is more than indifference level of EBIT, then
(a) Both plans be rejected (b)Both plans are good
(c) One is better than other (d) None of the above
131. Financial break-even level of EBIT is:
(a) Intercept at Y-axis,
(b) Intercept at X-axis
(c) Slope of EBIT-EPS line
(d) None of the above.
132. Which of the following is true for Net Income Approach?
(a) Higher Equity is better (b) Higher Debt is better
(c) Debt Ratio is irrelevant (d) None of the above
133. In case of Net Income Approach, the Cost of equity is:
(a) Constant (b) Increasing
(c) Decreasing (d) None of the above
134. In case of Net Income Approach, when the debt proportion is increased, the cost of debt:
(a) Increases (b) Decreases (c) Constant (d) None of the above
135. Which of the following is true of Net Income Approach?
(a) VF = VE+VD (b) VE = VF+VD (c) VD = VF+VE (d) VF = VE-VE
136. Net Operating Income Approach, which one of the lowing is constant?
(a) Cost of Equity (b) Cost of Debt (c) WACC & kd (d)Ke and Kd
137. NOI Approach advocates that the degree of debt financing is:
(a) Relevant (b) May be relevant
(c) Irrelevant (d) May be irrelevant
138. 'Judicious use of leverage' is suggested by:
(a) Net Income Approach (b) Net Operating Income Approach
(c) Traditional Approach (d) All of the above

139. Which one is true for Net Operating Income Approach?
(a) VD = VF - VE (b) VE = VF + VD (c) VE = VF - VD (d) VD = VF + VE
140. In the Traditional Approach, which one of the following remains constant?
(a) Cost of Equity (b) Cost of Debt
(c) WACC (d) None of the above
141. In MM-Model, irrelevance of capital structure is based on:
(a) Cost of Debt and Equity (b) Arbitrage Process
(c) Decreasing k0 (d) All of the above
142.'That there is no corporate tax' is assumed by:
(a) Net Income Approach (b) Net Operating Income Approach,
(c) Traditional Approach (d) All of these
143. 'That personal leverage can replace corporate leverage' is assumed by:
(a) Traditional Approach (b) MM Model
(c) Net Income Approach (d) Net Operating Income Approach.
144. Which of the following argues that the value of levered firm is higher than that of the unlevered firm?
(a) Net Income Approach (b) Net Operating Income Approach
(c) MM Model with taxes (d) Both (a) and (c)
145. In Traditional Approach, which one is correct?
(a) ke rises constantly (b) kd decreases constantly
(c) k0 decreases constantly (d) None of the above
146. Which of the following assumes constant kd and ke?
(a) Net Income Approach (b) Net Operating Income Approach
(c) Traditional Approach (d) MM Model.
147. Which of the following is true?
(a) Under Traditional Approach, overall cost of capital remains same,
(b) Under NI Approach, overall cost of capital remains same,
(c) Under NOI Approach, overall cost of capital remains same,
(d) None of the above.
148. The Traditional Approach to Value of the firm m that:
(a) There is no optimal capital structure,
(b) Value can be increased by judicious use of leverage
(c) Cost of Capital and Capital structure are m dent,
(d) Risk of the firm is independent of capital structure
149. A firm has EBIT of . 50,000. Market value of debt is . 80,000 and overall capitalization rate is 20%. Market value of firm under NOI Approach is:
(a) 2,50,000 (b) 1,70,000 (c) 30,000 (d) 1,30,000.
150. Which of the following is incorrect for NOI?
(a) k0 is constant (b) kd is constant
(c) ke is constant (d) kd & k0 are constant
151. Which of the following is incorrect for value of the firm?
(a) In the initial preposition, MM Model argues that value is independent of the financing mix.
(b) Total value of levered and unlevered firms is otherwise arbitrage will take place.
(c) Total value incorporates borrowings by firm but excludes personal borrowing.
(d) Total value does not change because underlying does not change with financing

mix.
152. Which of the following appearing in the balance! generates tax advantage and hence affects the c, structure decision ?
(a) Reserves and Surplus (b) Long-term debt
(c) Preference Share Capital (d) Equity Share Capital
153. In MM Model with taxes, where 'r' is the interest rate, 'D' is the total debt and 't' is tax rate, then present valued shields would be:
(a) r×D×t (b) r×D (c) D×t (d) (D× r)/(l-t).
(154) Walter's Model suggests for 100% DP Ratio when
(a) ke = r (b) ke < r (c) ke > r (d) ke = 0
(155) If a firm has ke > r the Walter's Model suggests for
(a) 0% payout (b) 100% Payout (c) 50% Payout (d)25% Payout
(156) Walter's Model suggests that a firm can always increase i.e. of the share by
(a) Increasing Dividend (b) Decreasing Dividend,
(c) Constant Dividend (d) None of the above
157. 'Bird in hand' argument is given by
(a) Walker's Model (b) Gordon's Model
(c)MM Mode (d) Residuals Theory
158. Residuals Theory argues that dividend is a
(a) Relevant Decision (b) Active Decision
(c) Passive Decision (d) Irrelevant Decision
159. Dividend irrelevance argument of MM Model is based on:
(a) Issue of Debentures (b) Issue of Bonus Share,
(c) Arbitrage (d) Hedging
160. Which of the following is not true for MM Model?
(a) Share price goes up if dividend is paid
(b) Share price goes down if dividend is not paid,
(c) Market value is unaffected by Dividend policy,
(d) All of the above
161. Which of the following stresses on investor's preference reorient dividend than higher future capital gains ?
(a)Walter's Model (b) Residuals Theory
(c) Gordon's Model (d) MM Model
162. MM Model of Dividend irrelevance uses arbitrage between
(a)Dividend and Bonus (b)Dividend and Capital Issue
(c)Profit and Investment (d)None of the above
163.If ke = r, then under Walter's Model, which of the following is irrelevant?
(a)Earnings per share (b)Dividend per share
(c)DP Ratio (d)None of the above
164. MM Model argues that dividend is irrelevant as
(a)the value of the firm depends upon earning power
(b)the investors buy shares for capital gain,
(c)dividend is payable after deciding the retained earnings,
(d)dividend is a small amount
165. Which of the following represents passive dividend policy ?
(a)that dividend is paid as a % of EPS,

(b)that dividend is paid as a constant amount,
(c)that dividend is paid after retaining profits for reinvestment,
(d)all of the above
166. In case of Gordon's Model, the MP for zero payout is zero. It means that
(a)Shares are not traded
(b)Shares available free of cost
(c)Investors are not ready to offer any price
(d) None of the above
167. 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
168.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
169. Dividend Payout Ratio is
(a) PAT÷ Capital (b) DPS ÷ EPS,
(c)Pref. Dividend ÷ PAT (d)Pref. Dividend ÷ Equity Dividend
170. Dividend declared by a company must be paid in
(a)20 days (b)30 days (c)32 days (d)42 days
171. Dividend Distribution Tax is payable by
(a)Shareholders to Government
(b)Shareholders to Company,
(c)Company to Government,
(d)Holding to Subsidiary Company
172. Shares of face value of 10 are 80% paid up. The company declares a dividend of 50%. Amount of dividend per share is
(a) 5 (b) 4 (c) 80 (d) 50
173.Which of the following generally not result in increase in total dividend liability ?
(a)Share-split (b)Right Issue
(c)Bonus Issue (d)All of the above
174. Dividends are paid out of
(a)Accumulated Profits (b)Gross Profit
(c)Profit after Tax (d)General Reserve
175. In India, Dividend Distribution tax is paid on
(a)Equity Share (b)Preference Share
(c)Debenture (d)Both (a) and (b)
176. Every company should follow
(a)High Dividend Payment (b)Low Dividend Payment
(c)Stable Dividend Payment (d)Fixed Dividend Payment
177. 'Constant Dividend Per Share' Policy is considered as:
(a) Increasing Dividend Policy (b) Decreasing Dividend Policy
(c)Stable Dividend Policy (d) None of the above
178. Which of the following is not a type of dividend payment?
(a) Bonus Issue (b) Right Issue (c) Share Split (d) Both (b) and (c)

179. If the following is an element of dividend policy?
(a) Production capacity, (b) Change in Management,
(c) Informational content, (d) Debt service capacity
180. Stock split is a form of
(a) Dividend Payment, (b)Bonus Issue,
(c) Financial restructuring, (d) Dividend in kind
181. In stock dividend:
(a)Authorized capital always increases (b)Paid up capital always increases
(c) Face value per share decreases (d) Market price for share decreases
182. Which of the following is not considered in Lintner's Model ?
(a) Dividend payout ratio, (b)Current EPS,
(c)Speed of Adjustment, (d)Preceding year EPS
183. Which of the following is not relevant for dividend payment for a year ?
(a)Cash flow position (b)Profit position,
(c)Paid up capital, (d) Retained Earnings
184. Cash Budget does not include
(a) Dividend Payable (b)Postal Expenditure,
(c) Issue of Capital, (d)Total Sales Figure.
185. Which of the following is not a motive to hold cash?
(a) Transactionary Motive, (b)Pre-scautionary Motive,
(c)Captal Investment, (d)None of the above.
186. Cheques deposited in bank may not be available for immediate use due to
(a) Payment Float (b)Recceipt Float
(c) Net Float, (d)Playing the Float.
187. Difference between between the bank balance as per Cash Book and Pass Book may be due to:
(a) Overdraft, (b) Float, (c) Factoring, (d)None of the above.
188. Concentration Banking helps in
(a) Reducing Idle Bank Balance (b)Increasing Collection,
(c)Increasing Creditors, (d)Reducing Bank Transactions.
189. The Transaction Motive for holding cash is for
(a) Safety Cushion (b)Daily Operations,
(c)Purchase of Assets (d)Payment of Dividends.
190. Miller-Orr Model deals with
(a)Optimum Cash Balance, (b)Optimum Finished goods,
(c)Optimum Receivables, (d)All of the above.
191.Float management is related to
(a)Cash Management, (b)Inventory Management,
(c)Receivables Management, (d)Raw Materials Management
192.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.
193.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.
194. 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
195. 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.
196.Marketable securities are primarily
(a) Equity shares,' (b) Preference shares,
(c)Fixed deposits with companies (d)Short-term debt investments.
197. 5Cs of the credit does not include
(a) Collateral (b)Character,
(c) Conditions, (d) None of the above
198. Which of the following is not an element of credit policy?
(a)Credit Terms (b)Collection Policy
(c)Cash Discount Terms, (d)Sales Price
199. Ageing schedule incorporates the relationship between
(a)Creditors and Days Outstanding (b)Debtors and Days Outstanding
(c)Average Age of Directors, (d)Average Age of All Employees.
200. 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
201. 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.
202. 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.
203. 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.
204. 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.
205. Out of the following, what is not true in respect of factoring?
(a)Continuous Arrangement between Factor and Seller,
(b)Sale of Receivables to the factor,
(c)Factor provides cost free finance to seller
(d)None of the above.
206. Payment to creditors is a manifestation of cash held for:
(a)Transactionery Motive, (b)Precautionary Motive,
(c)Speculative Motive, (d)All of the above.

207. If the closing balance of receivables is less than the opening balance for a month then which one is true out of
(a)Collections>Current Purchases, (b)Collections>Current Sales,
(c)Collections<Current Purchases, (d) Collections < Current Sales.
208. If the average balance of debtors has increased, which of the following might not show a change in general?
(a)Total Sales, (b)Average Payables
(c)Current Ratio (d)Bad Debt loss
209. Securitization is related to conversion of
(a)Receivables, (b)Stock, (c)Investments, (d)Creditors.
210. 80% of sales of 10,00,000 of a firm are on credit. It has a Receivable Turnover of 8. What is the Average collection period (360 days a year) and Average Debtors of the firm?
(a)45 days and 1,00,000 (b)360 days and 1,00,000,
(c)45 days and 8,00,000 (d)360 days and 1,25,000
211. In response to market expectations, the credit pence r j been increased from 45 days to 60 days. This would result in
(a)Decrease in Sales,
(b)Decrease in Debtors,
(c)Increase in Bad Debts,
(d)Increase in Average Collection Period.
212. If a company sells its receivable to another party to raise funds, it is known as
(a)Securitization (b)Factoring,
(c)Pledging (d)None of the above.
213. Cash Discount term 3/15, net 40 means
(a) 3% Discount if payment in 15 days, otherwise full payment in 40 days,
(b) 15% Discount if payment in 3 days, otherwise full payment 40 days,
(c) 3% Interest if payment made in 40 days and 15%,interest thereafter,
(d)None of the above.
214. If the sales of the firm are . 60,00,000 and the average debtors are . 15,00,000 then the receivables turnover is
(a) 4 times (b) 25% (c)400% (d)0.25 times
215. If cash discount is offered to customers, then which of the following would increase?
(a)Sales (b)Debtors
(c)Debt collection period (d)All of the above
216. Receivables Management deals with
(a)Receipts of raw materials (b)Debtors collection,
(c)Creditors Management (d)Inventory Management
217. Which of the following is related to Receivables Management?
(a) Cash Budget (b)Economic Order Quantity,
(c)Ageing schedule (d)All of the above.
218. EOQ is the quantity that minimizes
(a)Total Ordering Cost (b)Total Inventory Cost,
(c)Total Interest Cost (d)Safety Stock Level
219. ABC Analysis is used in
(a)Inventory Management (b)Receivables Management

(c)Accounting Policies, (d)Corporate Governance.
220. 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
221. 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.
222. Inventory holding cost may include
(a) Material Purchase Cost (b) Penalty charge for default,
(c) Interest on loan, (d)None of the above
223. 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
224. 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)
225. 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.
226. 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
227. If A = Annual Requirement, O = Order Cost and C = Carrying Cost per unit per annum, then EOQ
(a) (2AO/C) 2 (b) 2AO/C (c) 2A÷OC (d)2AOC
228. 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.
229. Which of the following is not included in cost of inventory?
(a)Purchase cost (b)Transport in Cost,
(c)Import Duty, (d)Selling Costs.
230. Cost of not carrying sufficient inventory is known as
(a)Carrying Cost (b)Holding Cost (c)Total Cost (d) Stock-out Cost
231. Which of the following is not a benefit of carrying inventories
(a) Reduction in ordering cost,
(b)Avoiding lost sales,
(c)Reducing carrying cost,
(d)Avoiding Production Shortages.
232. Which of the following is not a standard method of inventory valuation?
(a)First in First out (b)Standard Cost
(c)Average Pricing (d)Realizable Value
233. System of procuring goods when required, is known as,
(a)Free on Board (FOB) (b)always Butter Control (ABC),
(c) Jest in Time (JIT) (d)Economic Order Quantity.

234. A firm has inventory turnover of 6 and cost of goods sold is 7,50,000. With better inventory management, the inventory turnover is increased to 10. This would result in:
(a)Increase in inventory by 50,000,
(b)Decrease in inventory by . 50,000,
(c)Decrease in cost of goods sold,
(d)Increase in cost of goods sold.
235. What is Economic Order Quantity?
(a)Cost of an Order (b)Cost of Stock
(c)Reorder level (d)Optimum order size.
236. The type of collateral (security) used for short-term loan is
(a) Real estate, (b)Plant & Machinery,
(c)Stock of good (d)Equity share capital
237. Which of the following is a liability of a bank?
(a)Treasury Bills, (b)Commercial papers,
(c)Certificate of Deposits, (d)Junk Bonds.
238. Commercial paper is a type of
(a)Fixed coupon Bond (b)Unsecured short-term debt
(c)Equity share capital, (d) Government Bond
239.Which of the following is not a spontaneous source of short-term funds ?
(a)Trade credit, (b)Accrued expenses,
(c)Provision for dividend, (d)All of the above.
240. Concept of Maximum Permissible Bank finance was introduced by
(a)Kannan Committee (b)Chore Committee,
(c)Nayak Committee, (d)Tandon Committee.
241. In India, Commercial Papers are issued as per the guidelines issued by
(a) Securities and Exchange Board of India,
(b)Reserve Bank of India,
(c)Forward Market Commission,
(d)None of the above.
242. Commercial paper are generally issued at a pries
(a)Equal to face value, (b)More than face value,
(c)Less than face value, (d)Equal to redemption value
243. Which of the following is not applicable to commercial paper
(a)Face Value (b)Issue Price
(c)Coupon Rate (d)None of the above.
244. The basic objective of Tandon Committee recommendations is that the dependence of industry on bank should gradually
(a)Increase, (b)Remain Stable
(c)Decrease (d)None of the above
245. Cash discount terms offered by trade creditors never be accepted because
(a)Benefit in very small (b)Cost is very high
(c)No sense to pay earlier (d)None of the above.
246. In lease system, interest is calculated on
(a)Cash down payment (b)Cash price outstanding
(c)Hire purchase price (d)None of the above
247. A short-term lease which is often cancellable is known as

(a)Finance Lease (b)Net Lease,
(c)Operating Lease (d)Leverage Lease
248. Which of the following is not a usual type of lease arrangement?
(a)Sale & leaseback, (b)Goods on Approval,
(c)Leverage Lease, (d)Direct Lease
249. Under income-tax provisions, depreciation on lease asset is allowed to
(a) Lessor (b)Lessee
(c) Any of the two (d)None of the two
250. Under the provisions of AS-19 'Leases', a leased asset is shown is the balance sheet of
(a)Manufacturer (b)Lessor (c)Lessee (d Financing bank
251. A lease which is generally not cancellable and covers full economic life of the asset is known as
(a) Sale and leaseback, (b)Operating Lease
(c)Finance Lease, (d)Economic Lease
252. Lease which includes a third party (a lender) is known as
(a)Sale and leaseback (b)Direct Lease,
(c)Inverse Lease, (d) Leveraged Lease
253. One difference between Operating and Financial lease is:
(a)There is often an option to buy in operating lease
(b)There is often a call option in financial lease.
(c)An operating lease is generally cancelable by lease
(d) A financial lease in generally cancelable by lease.
254. From the point of view of the lessee, a lease is a:
(a)Working capital decision, (b)Financing decision,
(c)Buy or make decision, (d)Investment decision
255. For a lesser, a lease is a
(a)Investment decision, (b)Financing decision,
(c)Dividend decision (d)None of the above.
256. Which of the following is not true for a "Lease decision for the lessee?
(a) Helps in project selection (b)Helps in project financing
(c)Helps in project location (d)All of the above.
257. Risk-Return trade off implies
(a) Minimization of Risk, (b) Maximization of Risk,
(c)Ignorance of Risk (d) Optimization of Risk
258. Basic objective of diversification is
(a) Increasing Return, (b) Maximising Return,
(c) Decreasing Risk, (d) Maximizing Risk.
259. Risk-aversion of an investor can be measured by
(a) Market Rate of Return (b) Risk-free Rate of Return,
(c) Portfolio Return, (d) None of the above.
260. If the intrinsic value of a share is less than the market price, which of the most reasonable?
(a) That shares have lesser degree of risk
(b)That market is over valuing the shares
(c)That the company is high dividend paying,
(d) That market is undervaluing the share

.

ANSWER **KEY**

1.(b) 2. (c) 3. (a) 4. (a) 5. (a); 6. (b)
7. (b) 8. (b) 9. (d) 10. (b) 11.(c) 12(d)
13. (c) 14. (c) 15.(a) 16. (b) 17.(c) 18.(b)
19. (d) 20. (b) 21. (b) 22. (b) 23. (c) 24.(d)
25. (c) 26. (a) 27. (a) 28. (c) 29. (b) 30.(d)
31. (d) 32. (a) 33. (d) 34. (b) 35. (d) 36.(d)
37. (c) 38. (c) 39. (c) 40. (b) 41. (c) 42.(c)
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49. (c) 50. (c) 51. (d) 52. (b) 53. (c) 54. (b)
55. (a) 56. (d) 57. (a) 58. (c) 59. (d) 60.(b)
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193. (b) 194. (c) 195. (d) 196. (d) 197. (d) 198.(d)
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211. (d) 212(b) 213. (a) 214. (a) 215. (a) 216. (b)
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247. (c) 248. (b) 249. (a) 250. (c) 251.(c) 252.(d)

253(c) 254(b) 255. (a) 256. (b) 257. (d) 258.(c)
259. (d) 260. (b)