B. COM SEMESTER 5- MCQ
FINANCIAL MANAGEMENT

1. Accounting Ratios are important tools used by
(a) Managers,
(b) Researchers,
(c) Investors,
(d) All of the above

2. Net Profit Ratio Signifies:
(a) Operational Profitability,
(b) Liquidity Position,
(c) Big-term Solvency,
(d) Profit for Lenders.

3. Working Capital Turnover measures the relationship of Working Capital with:
(a) Fixed Assets,
(b) Sales,
(c) Purchases,
(d) Stock.

4. In Ratio Analysis, the term Capital Employed refers to:
(a) Equity Share Capital,
(b) Net worth,
(c) Shareholders' Funds,
(d) None of the above.

5. Dividend Payout Ratio is:
(a) PAT Capital,
(b) DPS ÷ EPS
(c) Pref. Dividend ÷ PAT,
(d) Pref. Dividend ÷ Equity Dividend.

6. DU PONT Analysis deals with:
(a) Analysis of Current Assets,
(b) Analysis of Profit,
(c) Capital Budgeting,
(d) Analysis of Fixed Assets.

7. In Net Profit Ratio, the denominator is:
(a) Net Purchases,
(b) Net Sales,
(c) Credit Sales,
(d) Cost of goods sold.

8. Inventory Turnover measures the relationship of inventory with:
(a) Average Sales,
(b) Cost of Goods Sold,
(c) Total Purchases,
(d) Total Assets.

9. The term 'EVA' is used for:
(a) Extra Value Analysis,
(b) Economic Value Added,
(c) Expected Value Analysis,
(d) Engineering Value Analysis.

10. Return on Investment may be improved by:
(a) Increasing Turnover,
(b) Reducing Expenses,
(c) Increasing Capital Utilization,
(d) All of the above.

11. In Current Ratio, Current Assets are compared with:
(a) Current Profit,
(b) Current Liabilities,
(c) Fixed Assets,
(d) Equity Share Capital.

12. ABC Ltd. has a Current Ratio of 1.5: 1 and Net Current Assets of Rs. 5,00,000. What are the Current Assets?
(a) Rs. 5,00,000,
(b) Rs. 10,00,000,
(c) Rs. 15,00,000,
(d) Rs. 25,00,000

13. 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 sale has decreased.

14. Which of the following does not help to increase Current Ratio?

(a) Issue of Debentures to buy Stock,
(b) Issue of Debentures to pay Creditors,
(c) Sale of Investment to pay Creditors,
(d) Avail Bank Overdraft to buy Machine.

15. 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.

16. 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.

17. Trend Analysis helps comparing performance of a firm

(a) With other firms,
(b) Over a period of firm,
(c) With other industries,
(d) None of the above.

18. 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.

19. A firm has Capital of Rs. 10,00,000; Sales of Rs. 5,00,000; Gross Profit of Rs. 2,00,000 and Expenses of Rs. 1,00,000. What is the Net Profit Ratio?

(a) 20%, (b) 50%, (c) 10%, (d) 40%.

20. XYZ Ltd. has earned 8% Return on Total Assests of Rs. 50,00,000 and has a Net Profit Ratio of 5%. Find out the Sales of the firm.

(a) Rs. 4,00,000, (b) Rs. 2,50,000, (c) Rs. 80,00,000, (d) Rs. 83,33,333.

21. Suppliers and Creditors of a firm are interested in

(a) Profitability Position,
(b) Liquidity Position,
(c) Market Share Position,
(d) Debt Position.

22. 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.

23. 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.

24. 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.

25. 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

26. 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.

27. Return on Assets and Return on Investment Ratios belong to:

(a) Liquidity Ratios,
(b) Profitability Ratios,
(c) Solvency Ratios,
(d) Turnover.

28. XYZ Ltd. has a Debt Equity Ratio of 1.5 as compared to 1.3 Industry average. It means that the firm has:

(a) Higher Liquidity, (c) Higher Profitability,
(b) Higher Financial Risk, (d) Higher Capital Employed.

29. Ratio Analysis can be used to study liquidity, turnover, profitability, etc. of a firm. What does Debt-Equity Ratio help to study?

(a) Solvency, (b) Liquidity, (c) Profitability, (d) Turnover,

30. In Inventory Turnover calculation, what is taken in the numerator?

(a) Sales, (c) Opening Stock,
(b) Cost of Goods Sold, (d) Closing Stock.

31. Financial Planning deals with:

(a) Preparation of Financial Statements, (c) Preparing Budgets,
(b) Planning for a Capital Issue, (d) All of the above.

32. Financial planning starts with the preparation of:

(a) Master Budget, (c) Balance Sheet,
(b) Cash Budget, (d) None of the above.

33. Which of the following is not a part of Master Budget?

(a) Projected Balance Sheet, (c) Operating Budgets,
(b) Capital Expenditure Budget, (d) Budget Manual.

34. Which of the following is not shown in Cash Budget?

(a) Proposed Issue of Capital, (c) Interest on loan,
(b) Loan Repayment, (d) Depreciation.

35. During year 1, the sales and Cost of goods sold were Rs. 6,00,000 and Rs. 4,30,000 respectively. Next year, the sales are expected to increase by 10%. The Cost of goods sold for next year would be:

(a) Rs. 4,30,000, (b) Rs. 4,90,000, (c) Rs. 4,73,000, (d) Rs. 4,40,000.

36. In 'Percentage of Sales' method of preparation of Projected Financial Statements, the Operating Expenses should be projected on the basis of:

(a) % of Profit before tax, (c) % of Gross Profit,
(b) % of Cost of goods Sold, (d) % of Sales.

37. In'% of Sales' method, various items of balance sheet are estimated on the basis of.

(a) % of Share Capital, (c) % of Fixed Assets,
(b) % of Sales in current year, (d) % of Sales in preceding year.

38. In Projected Balance Sheet, a balancing figure:

(a) May appear on Assets Side, (c) Would never appear,
(b) May appear on Liabilities Side, (d) Any of (a) or (&).

39. Procedure for preparation of 'Projected Financial Statements' should start from:

(a) Projection of Fixed Assets, (c) Projection of Sales,
(b) Projection of Capital, (d) Projection of Profit.

40. Which of the following is not considered which preparing cash budget?

(a) Accrual Principle, (c) Conservation Principle,
(b) Difference in Capital, and Revenue items, (d) All of the above.

41. Which of the following may not be apart of projected Financial Statements?
(a) Projected Income Statement,
(b) Projected Trial Balance,
(c) Projected Cash Flow Statement,
(d) Projected Balance Sheet.

42. 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.

43. Which of the following is not true for cash Budge?
(a) That shortage or excess of cash would appear in a particular period.
(b) All inflows would arise before outflows for those periods.
(c) Only revenue nature cash flows are shown.
(d) Proposed issue of share capital in shown as an inflow

44. Capital Budgeting is a part of:
(a) Investment Decision,
(b) Working Capital Management,
(c) Marketing Management,
(d) Capital Structure.

45. Capital Budgeting deals with:
(a) Long-term Decisions,
(b) Short-term Decisions,
(c) Both (a) and (b),
(d) Neither (a) nor (b).

46. 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.

47. Capital Budgeting Decisions are:
(a) Reversible,
(b) Irreversible,
(c) Unimportant,
(d) All of the above.

48. 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.

49. Which of the following is not a capital budgeting decision?
(a) Expansion Programme,
(b) Merger,
(c) Replacement of an Asset,
(d) Inventory Level.

50. A sound Capital Budgeting technique is based on:
(a) Cash Flows,
(b) Accounting Profit,
(c) Interest Rate on Borrowings,
(d) Last Dividend Paid.

51. 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.

52. Capital Budgeting Decisions are based on:
(a) Incremental Profit,
(b) Incremental Cash Flows,
(c) Incremental Assets,
(d) Incremental Capital.

53. 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.

54. 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).

55. 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.

56. 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.

57. 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.

58. 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.

59. 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.

60. 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.

61. 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.

62. 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.

63. 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.

64. Savings in respect of a cost is treated in capital budgeting as:

(a) An Inflow,
(b) (b) An Outflow,
(c) (c) Nil,
(d) (d) None of the above.

65. 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

66. 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

67. 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

68. 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

69. 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)

70. If there is no inflation during a period, then the Money Cashflow would be equal to:
(a) Present Value,
(b) Real Cashflow,
(c) Real Cashflow + Present Value ,
(d) Real Cashflow - Present Value

71. 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

72. 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

73. 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%

74. 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%

75. 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

76. 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

77. Which of the following cannot be true?
(a) Inflation Rate > Money Dis. Rate,
(b) Real Dis. Rate < Money Dis. Rate
(c) Inflation Rate < Real Dis. Rate,
(d) Inflation Rate = Real Dis. Rate

78. Money Cash flows should be adjusted for:
(a) Only Inflation Effect,
(b) Only Time Value of Money,
(c) None of (a) and (b),
(d) Both of (a) and (b)

79. EAV should be used in case of:
(a) Divisible Projects,
(b) Repetitive Projects,
(c) One-off Investments
(d) Indivisible Projects

80. EAV is Equal to:

(a) NPV × $PVAF_{(r,n)}$
(b) NPV + $PVAF_{(r,n)}$
(c) NPV ÷ $PVAF_{(r,n)}$
(d) NPV-$PVAF_{(r,n)}$

81. If a project has positive NPV, its EAV is

(a) Equal to NPV,
(b) More than NPV,
(c) Less than NPV,
(d) Any of the above

82. 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

83. 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

84. 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

85. 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

86. 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

87. In Risk-Adjusted Discount Rate method, the normal rate of discount is:

(a) Increased,
(b) Decreased,
(c) Unchanged,
(d) None of the above

88. 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

89. 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)

90. 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

91. Which element of the basic NPV equation is adjusted by the RADR?

(a) Denominator, (b) Numerator, (c) Both, (d) None

92. In CE Approach, the CE Factors for different years are:

(a) Generally increasing,
(b) Generally decreasing,
(c) Generally same,
(d) None of the above

93. Which of the following is correct for RADR?

(a) Accept a project if NPV at RADR is negative,
(b) Accept a project if IRR is more than RADR
(c) RADR is overall cost of capital plus risk-premium ,
(d) All of the above.

94. In Playback Period approach to risk the target payback period is
(a) Not adjusted,
(b) Adjusted upward,
(c) Adjusted downward ,
(d) (b) or (c)

95. In Sensitivity Analysis, the emphasis is on assessment of sensitivity of
(a) Net Economic Life,
(b) Net Present Value,
(c) Both (a) and (b),
(d) None of (a) and (b)

96. Most Sensitive variable as given by the Sensitivity Analysis should be:
(a) Ignored,
(b) Given Least important,
(c) Given the maximum importance,
(d) None of the above

97. Expected Value of Cashflow, EVCF, is:
(a) Certain to occur,
(b) Most likely Cashflows,
(c) Arithmetic Average Cashflow,
(d) Geometric Average Cashflow

98. Concept of joint probability is used in case of:
(a) Independent Cashflows,
(b) Uncertain Cashflows,
(c) Dependent Cashflows,
(d) Certain Cashflows

99. Decision-tree approach is used in:
(a) Proposals with longer life,
(b) Sequential decisions,
(c) Independent Cashflows,
(d) Accept-Reject Proposal

100. Cost of Capital refers to:
(a) Flotation Cost,
(b) Dividend,
(c) Required Rate of Return,
(d) None of the above.

101. 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.

102. Which of the following has the highest cost of capital?
(a) Equity shares,
(b) Loans,
(c) Bonds,
(d) Preference shares.

103. 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.

104. 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.

105. Weighted Average Cost of Capital is generally denoted by:
(a) k_A,
(b) k_w,
(c) k_0,
(d) k_c,

106. 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.

107. Which is the most expensive source of funds?
(a) New Equity Shares,
(b) New Preference Shares,
(c) New Debts,
(d) Retained Earnings.

108. Marginal cost of capital is the cost of:
(a) Additional Sales,
(b) Additional Funds,
(c) Additional Interests,
(d) None of the above.

109. 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).

110. In case of partially debt-financed firm, k_0 is less

(a) K_d ,
(b) K_e,
(c) Both (a) and (b),
(d) None of the above.

111. 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.

112. Firm's Cost of Capital is the average cost of:

(a) All sources,
(b) All borrowings,
(c) Share capital,
(d) Share Bonds & Debentures.

113. 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.

114. 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.

115. 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.

116. 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.

117. 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.

118. Cost of 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) Any of the three options.

119. 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.

120. 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.

121. 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.

122. 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.

123. 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.

124. 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.

125. 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.

126. 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.

127. 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.

128. Operating leverage helps in analysis of:

(a) Business Risk,
(b) Financing Risk,
(c) Production Risk,
(d) Credit Risk

129. 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

130. Combined Leverage is obtained from OL and FL by their:

(a) Addition, (b) Subtraction, (c) Multiplication, (d) Any of these

131. High degree of financial leverage means:
(a) High debt proportion,
(b) Lower debt proportion,
(c) Equal debt and equity,
(d) No debt

132. Operating leverage arises because of:
(a) Fixed Cost of Production,
(b) Fixed Interest Cost,
(c) Variable Cost,
(d) None of the above

133. Financial Leverage arises because of:
(a) Fixed cost of production,
(b) Variable Cost,
(c) Interest Cost,
(d) None of the above

134. Operating Leverage is calculated as:
(a) Contribution ÷ EBIT,
(b) EBIT÷PBT,
(c) EBIT ÷Interest,
(d) EBIT ÷Tax

135. Financial Leverage is calculated as:
(a) EBIT÷ Contribution,
(b) EBIT÷ PBT,
(c) EBIT÷ Sales,
(d) EBIT ÷ Variable Cost

136. 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

137. 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

138. FL is zero if:
(a) EBIT = Interest,
(b) EBIT = Zero,
(c) EBIT = Fixed Cost,
(d) EBIT = Pref. Dividend

139. Business risk can be measured by:
(a) Financial leverage,
(b) Operating leverage,
(c) Combined leverage,
(d) None of the above

140. Financial Leverage measures relationship between
(a) EBIT and PBT,
(b) EBIT and EPS,
(c) Sales and PBT,
(d) Sales and EPS

141. Use of Preference Share Capital in Capital structure
(a) Increases OL,
(b) Increases FL,
(c) Decreases OL,
(d) Decreases FL

142. 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

143. Operating leverage works when:
(a) Sales Increases,
(b) Sales Decreases,
(c) Both (a) and (b),
(d) None of (a) and (b)

144. Which of the following is correct?
(a) CL= OL + FL,
(b) CL=OL-FL,
(c) OL= OL × FL,
(d) OL=OL÷FL

145. 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

146. 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

147. 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

148. 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

149. Higher OL is related to the use of higher:
(a) Debt,
(b) Equity,
(c) Fixed Cost,
(d) Variable Cost

150. Higher FL is related the use of:
(a) Higher Equity,
(b) Higher Debt,
(c) Lower Debt,
(d) None of the above

151. 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.

152. Trading on Equity is :
(a) Always beneficial,
(b) May be beneficial,
(c) Never beneficial,
(d) None of the above.

153. 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).

154. Indifference Level of EBIT is one at which:
(a) EPS is zero,
(b) EPS is Minimum,
(c) EPS is highest,
(d) None of these.

155. 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.

156. 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.

157. 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.

158. At Indifference level of EBIT, different capital have:
(a) Same EBIT,
(b) Same EPS,
(c) Same PAT,
(d) Same PBT.

159. 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.

160. 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.

161. 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.

162. 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.

163. In case of Net Income Approach, the Cost of equity is:

(a) Constant,
(b) Increasing,
(c) Decreasing,
(d) None of the above.

164. 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.

165. Which of the following is true of Net Income Approach?

(a) $V_F = V_E + V_D$,
(b) $V_E = V_F + V_D$,
(c) $V_D = V_F + V_E$,
(d) $V_F = V_E - V_E$,

166. Net Operating Income Approach, which one of the lowing is constant?

(a) Cost of Equity,
(b) Cost of Debt,
(c) WACC & k_d,
(d) K_e and K_d

167. NOI Approach advocates that the degree of debt financing is:

(a) Relevant,
(b) May be relevant,
(c) Irrelevant,
(d) May be irrelevant.

168. 'Judicious use of leverage' is suggested by:

(a) Net Income Approach,
(b) Net Operating Income Approach,
(c) Traditional Approach,
(d) All of the above.

169. Which one is true for Net Operating Income Approach?

(a) $V_D = V_F - V_E$,
(b) $V_E = V_F + V_D$,
(c) $V_E = V_F - V_D$,
(d) $V_D = V_F + V_E$.

170. 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.

171. In MM-Model, irrelevance of capital structure is based on:

(a) Cost of Debt and Equity,
(b) Arbitrage Process,
(c) Decreasing k_0,
(d) All of the above.

172. 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.

173. 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.

174. 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).

175. In Traditional Approach, which one is correct?

(a) k_e rises constantly,
(b) k_d decreases constantly,
(c) k_0 decreases constantly,
(d) None of the above.

176. Which of the following assumes constant k_d and k_e?

(a) Net Income Approach,
(b) Net Operating Income Approach,
(c) Traditional Approach,
(d) MM Model.

177. 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.

178. 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

179. A firm has EBIT of Rs. 50,000. Market value of debt is Rs. 80,000 and overall capitalization rate is 20%. Market value of firm under NOI Approach is:

(a) Rs. 2,50,000, (b) Rs. 1,70,000, (c) Rs. 30,000, (d) Rs. 1,30,000.

180. Which of the following is incorrect for NOI?

(a) k_0 is constant,
(b) k_d is constant,
(c) ke is constant,
(d) k_d& k_0 are constant.

181. 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.

182. 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.

183. 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).

184. ‘Bird in hand' argument is given by

(a) Walker's Model,
(b) Gordon's Model,
(c) MM Mode,
(e) Residuals Theory

185. Residuals Theory argues that dividend is a

(a) Relevant Decision ,
(b) Active Decision,
(c) Passive Decision,
(d) Irrelevant Decision

186. Dividend irrelevance argument of MM Model is based on:

(a) Issue of Debentures,
(b) Issue of Bonus Share,
(c) Arbitrage ,
(d) Hedging

187. 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.

188. 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.

189. 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

190. If k_e = 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

191. 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

192. 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

193. 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

194. 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

195. 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

196. Dividend Payout Ratio is

(a) PAT÷ Capital,

(b) DPS ÷ EPS,

(c) Pref. Dividend ÷ PAT,

(d) Pref. Dividend ÷ Equity Dividend

197. Dividend declared by a company must be paid in

(a) 20 days, (b) 30 days, (c) 32 days, (d) 42 days

198. Dividend Distribution Tax is payable by

(a) Shareholders to Government,

(b) Shareholders to Company,

(c) Company to Government,

(d) Holding to Subsidiary Company

199. Shares of face value of Rs. 10 are 80% paid up. The company declares a dividend of 50%. Amount of dividend per share is

(a) Rs. 5, (b) Rs.4, (c) Rs. 80, (d) Rs. 50

200. 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

Answers : 1. (d); 2. (a) 3. (a); 4. (d); 5. (b); 6. (b); 7. (b); 8. (b); 9. (b); 10. (d); 11. (b); 12. (c); 13. (c); 14. (d); 15. (d); 16. (c); 17. (b); 18. (c);19. (a); 20. (c);21. (b);22. (c);23. (b);24. (d);25. (b);26. (b); 27. (b); 28. (b); 29. (a); 30. (b) 31. (c); 32. (d); 33. (d); 34. (d); 35. (c); 36. (d); 37. (d), 38 (d), 39. (c); 40. (d); 41. (b); 42. (c); 43. (c)44(a), 45(a), 46(c), 47(b), 48(d), 49(d), 50(a), 51(d), 52(b), 53(d), 54(d), 55(c), 56 (c), 57(c), 58(b), 59(c), 60(c), 61(b), 62(c), 63(b), 64(a)65. (b); 66. (a); 67. (c); 68. (c); 69. (d); 70. (b); 71. (c); 72. (b); 73. (a); 74. (d);75 (a); 76. (c); 77. (a); 78. (c); 79. (b);80. (c); 81. (c); 82. (d)83. (b) 84. (d) 85. (d) 86. (d) 87. (a) 88. (c) 89. (b) 90. (d) 91. (a) 92. (b). 93. (c) 94. (c) 95. (b) 96. (c) 97. (b) 98. (c) 99. (b)l00 (c), 101 (d), 102 (a), 103 (a), 104 (b), 105 (c), 106 (c), 107 (a), 108 (b), 109 (b), 110 (b), 111 (d), 112 (a), 113(c), 114 (c), 115(c), 116 (d), 117(b), 118 (d), 119 (b), 120 (b), 121(c), 122 (c), 123 (c), 124 (d), 125 (c), 126 (b), 127(c)128. (a), 129. (d), 130. (c), 131. (a), 132. (a),133. (c), 134. (a), 135. (b), 136. (c), 137. (c), 138. (b), 139. (b), 140. (b), 141. (b), 142. (b), 143. (c), 144. (c), 145. (d), 146. (b), 147. (d), 148. (c), 149. (c), 150. (b)151. (b),152. (b), 153. (a), 154. (d), 155. (b), 156. (b), 157. (b), 158. (b), 159. (d), 160. (b), 161. (c): l62 (b), 163 (a), 164 (c), 165 (a), 166 (c), 167 (c), 168 (c), 169 (c), 170 (d) 171 (b), 172 (d), 173 (b), 174 (d), 175 (d), 176 (a), 177 (c), 178 (b), 179 (b) 180 (c), 181 (d), 182 (b), 183(c)184 (b),185(c), 186(c), 187(c), 188(c), 189(b), 190(c), 191 (a), 192(c), 193(c), 194(b), 195(c)l96 (b), 197 (b), 198 (c), 199 (b), 200 (a)