M.COM DEGREE (CSS) EXAMINATION
THIRD SEMESTER – FACULTY OF COMMERCE (Private Registration)

CM010301 – STRATEGIC FINANCIAL MANAGEMENT
MULTIPLE CHOICE QUESTIONS

1. __________ refers to planning regarding financial needs of the enterprise various sources of raising funds and their optimum utilization.
(A) Financial planning
(B) Capital structure
(C) Financial management
(D) Financial Decision

2. Which of the factors affect dividend decisions?
(A) Preference of shareholders
(B) Earning
(C) Stability of dividend
(D) All of the above

3. Which of the following is not a feature of a financial plan?
(A) Simplicity
(B) Cost
(C) Flexibility
(D) Foresight

4. Financial management is concerned with managerial activities relating to
(A) Planning
(B) Procurement and administration of funds
(C) Optimum utilization of funds
(D) All of the above

5. Which of the following factors affect financial decision?
(A) Cost
(B) Risk
(C) Cash flow position
(D) All of the above

6. _____ is the decision related to composition of capital structure & also depends upon ability of the business to generate cash.
(A) Market condition
(B) Flexibility
(C) Cash flow ability
(D) Control

7. _____ refers to the structure of total capital funds raised by the company.
(A) Fixed capital
(B) Capital structure
(C) Capital requirements
(D) Under capitalization

8. Rate of return on capital is exceptionally high in
(A) Under – capitalization
(B) Over – capitalization
(C) Working capital
(D) Fixed capital

9. ________ estimate the difference between the required rate of return and the growth rate.
(A) Retention ratio
(B) Leverage ratio
(C) Payout Ratio
(D) Dividend yield ratio

10. Annual Cost Saving ₹4,00,000; Useful life 4 years; Cost of the Project ₹11,42,000. The Payback period would be-
(A) 2 years 8 months
(B) 2 years 11 months
(C) 3 years
(D) 1 year 10 months

11. The following is not a systematic risk.
(A) Market Risk
(B) Interest Rate Risk
(C) Business Risk
(D) Purchasing Power Risk

12. The following is not a feature of Capital Market Line:
(A) There is no unsystematic risk
(B) The individual portfolio exactly replicates market portfolio in terms of risk and reward
(C) Estimates portfolio return based on market return
(D) Diversification can minimize the individual portfolio risk

13. Given

	Last Year	Current Year
Sales unit	2,000	2,800
Selling Price per unit	₹10	₹10
EPS	₹9.60	₹38.40

What is the Degree of Combined Leverage?
(A) 6.5
(B) 5.6
(C) 7.5
(D) 5.7

14. Which of the following securities is most liquid?
(A) Money Market instruments
(B) Capital Market instruments
(C) Gilt-edged securities
(D) Index futures

15. While plotting a graph with risk on X-axis and expected return on Y-axis, a line drawn with co-ordinates (0, rf) and (β, rm) is called
(A) Security Market Line
(B) Characteristic Line
(C) Capital Market Line
(D) CAPM Line

16. If the RBI intends to reduce the supply of money as part of anti-inflation policy, it might
(A) Lower the bank rate
(B) Increase the Cash Reserve Ratio
(C) Decrease the SLR
(D) Buy Government securities in the open market.

17. Which of the following is not an investment constraint?
(A) Liquidity
(B) The absence of the need for regular income.
(C) The preferred time horizon
(D) Risk tolerance

18. 'Bank rate' published by the Reserve Bank refers to
(A) the repo rate transacted by RBI
(B) the rate at which housing or other long term loans shall be sanctioned by scheduled banks to their customers
(C) The rate at which RBI is willing to buy or rediscount bills of exchange or other commercial paper
(D) the rate which RBI uses as cut-off for auction of Government securities

19. . In a constant dividend model, the following estimates the difference between the required rate of return and the growth rate:
(A) Earnings Retention ratio
(B) Leverage ratio
(C) Dividend Pay-out ratio
(D) Dividend yield ratio

20. A company is considering four projects A, B, C and D with the following information:

	Project A	Project B	Project C	Project D
Expected NPV (Rs)	60,000	80,000	70,000	90,000
Standard deviation (Rs)	4,000	10,000	12,000	14,000

Which project will fit the requirement of low-risk appetite?
(A) Project A
(B) Project B
(C) Project C
(D) Project D

21. Which of the following investment avenues has the least risk associated with it?
(A) Corporate Fixed Deposits
(B) Deposits in commercial banks
(C) Public Provident Fund
(D) Non-convertible zero coupon bonds

22. Which of the following capital budgeting methods has the value additive property?
(A) NPV
(B) IRR
(C) Payback period.
(D) Discounted payback period

23. In Walter model formula, D stands for
(A) Dividend per share
(B) Dividend earning
(C) Direct dividend
(D) None of these

24. A firm's degree of operating leverage (DOL) depends primarily upon its
(A) Sales variability
(B) Level of fixed operating costs
(C) Closeness to its operating break-even point
(D) Debt-to-equity ratio

25. An EBIT-EPS indifference analysis chart is used for ______
(A) Evaluating the effects of business risk on EPS
(B) Examining EPS results for alternative financing plans at varying EBIT levels
(C) Determining the impact of a change in sales on EBIT
(D) Showing the changes in EPS quality over time.

26. EBIT is usually the same thing as:
(A) Funds provided by operations
(B) Earnings before taxes
(C) Net income
(D) Operating profit

27. In the context of operating leverage break-even analysis, if selling price per unit rises and all other variables remain constant, the operating break-even point in units will :
(A) fall
(B) rise
(C) stay the same
(D) still be indeterminate until interest and preferred dividends paid are known

28. If a firm has a DOL of 5 at Q units, this tell us that:
(A) If sales rise by 5%, EBIT will rise by 5%
(B) If sales rise by 1%, EBIT will rise by 5%
(C) If sales rise by 1%, EBIT will rise by 1%
(D) If sales rise by 1%, EBIT will rise by 5%

29. This statistic can be used as a quantitative measure of relative "financial risk."
(A) coefficient of variation of earnings per share (CV_{EPS})
(B) coefficient of variation of operating income (CV_{EBIT})
(C) (CV_{EPS} - CV_{EBIT})
(D) (CV_{EPS} + CV_{EBIT})

30. A firm's degree of total leverage (DTL) is equal to its degree of operating leverage _____ its degree of financial leverage (DFL).
(A) Plus
(B) Minus
(C) Divided by
(D) Multiplied by

31. The further a firm operates above its operating break-even point, the closer its degree of operating leverage (DOL) measure approaches _____
(A) Minus one
(B) Zero
(C) One
(D) infinity

32. Which one of the following is the assumption of Gordon's Model
(A) Ke > g
(B) Retention ration (b), once decided upon, is constant
(C) Firm is an all-equity firm
(D) All of the above

33. What should be the optimum Dividend pay-out ratio, when r=15% & Ke=12%
(A) 100%
(B) 50%
(C) Zero
(D) None of the above

34. Which of the following is the Irrelevance theory?
(A) Walter model
(B) Gordon model
(C) M M Hypothesis
(D) Linter's model

35. Mature companies having few investment opportunities will show high payout ratios, this statement is:
(A) False
(B) True
(C) Partially true
(D) None of these

36. If the shareholders prefer regular income, how does this affect the dividend decision:
(A) It will lead to payment of dividend
(B) It is the indicator to retain more earnings
(C) It has no impact on dividend decision
(D) Can't say

37. In finance, "working capital" means the same thing as
(A) total assets.
(B) fixed assets.
(C) current assets.
(D) current assets minus current liabilities.

38. Which of the following would be consistent with a more aggressive approach to financing working capital?
(A) Financing short-term needs with short-term funds.
(B) Financing permanent inventory build-up with long-term debt.
(C) Financing seasonal needs with short-term funds.
(D) Financing some long-term needs with short-term funds.

39. Which asset-liability combination would most likely result in the firm's having the greatest risk of technical insolvency?
(A) Increasing current assets while lowering current liabilities.
(B) Increasing current assets while incurring more current liabilities.
(C) Reducing current assets, increasing current liabilities, and reducing long-term debt.
(D) Replacing short-term debt with equity.

40. Which of the following illustrates the use of a hedging (or matching) approach to financing?
(A) Short-term assets financed with long-term liabilities.
(B) Permanent working capital financed with long-term liabilities.
(C) Short-term assets financed with equity.
(D) All assets financed with a 50 percent equity, 50 percent long-term debt mixture.

41. Net working capital refers to
(A) total assets minus fixed assets.
(B) current assets minus current liabilities.
(C) current assets minus inventories.
(D) current assets

42. Financing a long-lived asset with short-term financing would be
(A) an example of "moderate risk -- moderate (potential) profitability" asset financing
(B) an example of "low risk -- low (potential) profitability" asset financing.
(C) an example of "high risk -- high (potential) profitability" asset financing.
(D) an example of the "hedging approach" to financing.

43. Permanent working capital

(A) varies with seasonal needs.

(B) includes fixed assets.

(C) is the amount of current assets required to meet a firm's long-term minimum needs

(D) includes accounts payable.

44. Spontaneous financing includes

(A) accounts receivable.

(B) accounts payable.

(C) short-term loans.

(D) a line of credit.

45. In deciding the appropriate level of current assets for the firm, management is confronted with

(A) a trade-off between profitability and risk.

(B) a trade-off between liquidity and marketability.

(C) a trade-off between equity and debt.

(D) a trade-off between short-term versus long-term borrowing.

46. Cash deposit with the bank with a maturity date after two months belongs to which of the following in the cash flow statement?

(A) Financing Activities.

(B) Cash and Cash Equivalent.

(C) Operating Activities.

(D) Investing Activities.

47. Interest paid by an investment company will come under which kind of activity while preparing a cash flow statement?

(A) Cash Flow from Investing Activities.

(B) Cash Flow from Financing Activities.

(C) No Cash Flow.

(D) Cash Flow from Operating Activities.

48. Dividend paid by a manufacturing company is classified under which kind of activity while preparing cash flow statements?

(A) Cash Flow from Investing Activities.

(B) Cash Flow from Financing Activities.

(C) No Cash Flow.

(D) Cash Flow from Operating Activities.

49. A Mutual Fund Company receives a dividend of ₹20 Lakhs on its investments in another company’s shares. Where will it appear in a cash flow statement?

(A) Cash Flow from Investing Activities.

(B) Cash Flow from Financing Activities.

(C) No Cash Flow.

(D) Cash Flow from Operating Activities.

50. How will you deal with an increase in the balance of ‘Securities Premium Reserve’ while preparing a cash flow statement?
(A) Cash Flow from Investing Activities.
(B) Cash Flow from Financing Activities.
(C) Cash Equivalent.
(D) Cash Flow from Operating Activities.

51. Financing activities bring changes in ______.
(A) Size and composition in owners’ equities.
(B) Borrowings of the enterprise.
(C) Size and composition of owners’ equities and borrowings of the enterprise.
(D) None of the options are correct.

52. According to Accounting standard 3 cash flows are classified into _______.
(A) Operating Activities and Investing Activities.
(B) Investing Activities and Financing Activities.
(C) Operating Activities and Financing Activities.
(D) Financing Activities, Operating Activities, and Investing Activities.

53. Cash Flow Statements is based upon ____, while Fund Flow Statements recognises _______.
(A) Accrual Basis of Accounting, and Cash Basis of Accounting.
(B) Both are based on the Cash Basis of Accounting.
(C) Cash Basis of Accounting, and Accrual Basis of Accounting.
(D) All of the options are correct.

54. When fixed assets are bought on hire purchase, the interest element is classified under ______, and the loan element is classified under ____.
(A) Operating Activities, and Financing Activities.
(B) Financing Activities, and Operating Activities.
(C) Financing Activities, and Investing Activities.
(D) All of the options are correct.

55. A financial statement that portrays the cash inflows and outflows of cash during a particular period of time is called ______.
(A) An Income Statement.
(B) Statement of Retained Earnings.
(C) Balance Sheet.
(D) Statement of Cash Flow.

56. A decrease in the firm’s receivable turnover ratio means that –
(A) it is collecting credit sales more quickly than before
(B) it is collecting credit sales more slowly than before
(C) sales have gone down
(D) inventories have gone up

57. Receivables arise -…………….
1. If the goods are sold on credit.
2. If the goods are sold on cash
3. If the services are rendered on credit

4. If the services are rendered on cash.
Select correct answer from the options given below:
(A) 1 only
(B) 1 & 2
(C) 1 & 3
(D) All 1 to 4

58. Which of the following function is required to be performed by the finance manager in relation to proper management of receivables?
(A) To obtain optimum (not maximum) value of sales.
(B) To adopt relaxed policy for administrative expense.
(C) To increase opportunity cost of funds blocked in the receivables.
(D) To make more purchases at bigger discounts.

59. Risk of non-payment may due to –
(A) Insolvency
(B) Liquidity problems
(C) Intention of cheating
(D) All of the above

60. The cash discount is given to customers for:
(A) Early payments
(B) Good business relations
(C) Bulk purchase
(D) Frequent purchases

61. Accounts receivable are reported in the balance sheet:
(A) At face value
(B) At gross value
(C) At net realizable value
(D) At net credit sales value

62. An important means to get an insight into collection pattern of debtors is the preparation of their
(A) List of proposed discount
(B) Discount schedule
(C) Schedule of personal information of debtors
(D) Ageing Schedule.

63. Which of the following may be a reason why you would choose a policy with a higher Average Collection Period (ACP)?
(A) Lower percentage of collections in late dates.
(B) Higher percentage of collections in early dates.
(C) Lower percentage of collections in early dates.
(D) Higher percentage of collections in middle dates

64. ______ is an arrangement to have debts collected by a third party entity for a fee.
(A) Factoring
(B) Aging
(C) Forming
(D) Crediting

65. Selling accounts receivable to a third party at a reduced price is part of the collection process known as –
(A) Settling
(B) Writing off
(C) suing
(D) Factoring

66. A system used to decide whether to grant credit by assigning a numerical value that is related to the creditworthiness of the applicant is
(A) Credit Scoring System
(B) ERP System
(C) D & B Rating Classification System
(D) JIT System

67. Bill discounting is always with
(A) recourse
(B) non-recourse
(C) recourse or without recourse
(D) resource

68. _____refers to the use of a firm's receivable to secure a short term loan.
(A) Factoring
(B) Pledging
(C) Monitoring
(D) Securitization

69. Increasing the credit period from 30 to 60 days, in response to a similar action taken by all of our competitors, would likely result in:
(A) an increase in the average collection period.
(B) a decrease in bad debt losses.
(C) an increase in sales.
(D) higher profit

70. Effective inventory management minimizes the investment in inventory by effectively meeting the ___.
(A) Functional requirement
(B) Customer requirement
(C) Process reliability
(D) Sales forecasting of a firm

71. Which of the following models is used to calculate the timing of the inventory order?
(A) Economic order quantity model
(B) Fixed order quantity model
(C) Reorder point model
(D) Fixed order inventory model

72. Which among the following components is calculated as the sum of the fixed costs that happen each time an item is ordered?
(A) Carrying cost
(B) Order cost
(C) Holding cost
(D) Storing cost

73. In proper capital budgeting analysis, we evaluate incremental
(A) accounting income.
(B) cash flow.
(C) earnings.
(D) operating profit

74. A capital investment is one that
(A) has the prospect of long-term benefits.
(B) has the prospect of short-term benefits.
(C) is only undertaken by large corporations.
applies only to investment in fixed assets.

75. A profitability index of .85 for a project means that:
(A) the present value of benefits is 85% greater than the project's costs.
(B) the project's NPV is greater than zero.
(C) the project returns 85 cents in present value for each current rupee invested.
(D) the payback period is less than one year.

76. If capital is to be rationed for only the current period, a firm should probably first consider selecting projects by descending order of .
(A) net present value
(B) payback period
(C) internal rate of return
(D) profitability index

77. The ____ method provides correct rankings of mutually exclusive projects, when the firm is not subject to capital rationing.
(A) net present value
(B) internal rate of return
(C) payback period
(D) profitability index

78. This type of risk is avoidable through proper diversification.
(A) portfolio risk (B) systematic risk (C) unsystematic risk (D) total risk

79. An "aggressive" common stock would have a "beta"
(A) equal to zero.
(B) greater than one.
(C) equal to one.
(D) less than one.

80. One difference between a financial lease and operating lease is that:
(A) there is a often a call option in a financial lease.
(B) there is often an option to buy in an operating lease.
(C) an operating lease is often cancellable by the lessee.
(D) a financial lease is often cancellable by the lessee.

81. The principal reason for the existence of leasing is that:
(A) intermediate-term loans are difficult to obtain.
(B) this is a type of financing unaffected by changes in tax law.
(C) companies, financial institutions, and individuals derive different benefits from owning assets.
(D) leasing is a renewable source of intermediate-term funds

82. The type of lease that includes a third party, a lender, is called a(n):
(A) sale and leaseback.
(B) indirect leasing arrangement.
(C) leveraged lease.
(D) operating lease.

83. A direct lease, a sale and leaseback, and a leveraged lease are all examples of
(A) operating leases.
(B) financial leases.
(C) full-service leases.
(D) "off-balance sheet" methods of financing

84. Return on Proprietors' funds is also known as:
(A) Return on net worth
(B) Return on Shareholders' fund
(C) Return on Shareholders' Investment
(D) All of the above

85. While calculating Earnings per share, if both equity and preference share capitals are there, then
(A) Preference share is deducted from the net profit
(B) Equity share capital is deducted from the net profit
(C) Both a and b
(D) None of the above

86. Overall Profitability ratios are based on
(A) Investments
(B) Sales
(C) a & B
(D) None of the above

87. Return on equity capital is calculated on basis of:
(A) Funds of equity shareholders
(B) Equity capital only
(C) Either a or b
(D) None of the above

88. Turnover ratios are also known as
(A) Activity ratios
(B) Performance ratios
(C) Both a and b
(D) None of the above

89. Stock velocity established a relationship between
(A) Cost of goods sold in a given period and the average amount of inventory held during that period.
(B) Cost of goods sold in a given period and the average amount of stock held during that period.
(C) Both a and b
(D) None of the above

90. Determine stock turnover ratio if, opening stock is Rs 31,000, Closing stock is Rs 29,000, Sales is Rs 3,20,000 and Gross profit ratio is 25% on sales.
(A) 31 times
(B) 11 times
(C) 8 times
(D) 32 times

91. Debtors' Turnover ratio is also known as
(A) Receivables turnover ratio
(B) Debtors velocity
(C) Stock velocity
(D) Payable turnover ratio

(A) A and B
(B) A and C
(C) B and C
(D) C and D

92. Working capital turnover ratio can be determined by:
(A) (Gross Profit/Working capital)
(B) (Cost of goods sold/Net sales)
(C) (Cost of goods sold/Working capital)
(D) None of the above

93. Which ratio is considered as safe margin of solvency?
(A) Liquid ratio (B) Quick ratio (C) Current ratio (D) None of the above

94. The ideal level of current ratio is
(A) 4:2 (B) 2:1 (C) Both a and b (D) None of the above

95. Liquid ratio is also known as
(A) Quick ratio
(B) Acid test ratio
(C) Working capital ratio
(D) Stock turnover ratio

(A) A and B
(B) A and C
(C) B and C
(D) C and D

96. Which of the following is not included in current assets?
(A) Debtors
(B) Stock
(C) Cash at bank
(D) Cash in hand

97. Collection of debtors
(A) Decreases current ratio
(B) Increases current ratio
(C) Has no effect on current ratio
(D) None of the above

98. Which of the following are current assets?
(A) Fixed investments
(B) Trade Payables
(C) Short-term loans and advances
(D) Furniture

(A) Only A
(B) Only B
(C) Only C
(D) A, B, C and D

99. Bond, debentures and term loans falls under:
(A) Current assets
(B) Non-current assets
(C) Non-current liabilities
(D) Current liabilities

100. Debt-equity ratio is a sub-part of
(A) Short-term solvency ratio
(B) Long-term solvency ratio
(C) Debtors turnover ratio
(D) None of the above

ANSWER KEY

1.(A)	2. (D)	3. (B)	4. (D)	5. (D)	6. (C)	7. (B)
8. (A)	9. (D)	10. (B)	11. (C)	12. (D)	13. (C)	14. (C)
15. (A)	16. (B)	17. (B)	18. (C)	19. (D)	20. (A)	21. (C)
22. (A)	23. (A)	24. (C)	25. (B)	26. (D)	27. (A)	28. (D)
29. (C)	30. (D)	31. (C)	32. (D)	33. (C)	34. (C)	35. (B)
36. (A)	37. (C)	38. (D)	39. (A)	40. (A)	41. (B)	42. (C)
43. (C)	44. (B)	45. (A)	46. (B)	47. (D)	48. (B)	49. (D)
50. (B)	51. (C)	52. (D)	53. (C)	54. (C)	55. (D)	56. (B)
57. (C)	58. (A)	59. (D)	60. (A)	61. (C)	62. (D)	63. (B)
64. (A)	65. (D)	66. (A)	67. (A)	68. (B)	69. (A)	70. (A)
71. (C)	72. (B)	73. (B)	74. (A)	75. (C)	76. (D)	77. (A)
78. (C)	79. (B)	80. (C)	81. (C)	82. (C)	83. (B)	84. (D)
85. (A)	86. (A)	87. (C)	88. (C)	89. (C)	90. (C)	91. (A)
92. (C)	93. (C)	94. (C)	95. (A)	96. (B)	97. (A)	98. (C)
99. (C)	100. (B)					