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**FINANCIAL MANAGEMENT P21COC101**

**UNIT-1**

**Introduction.**

1. \_\_\_\_\_\_ is concerned with the duties of the financial managers in the business firm.

(a) Financial Management (b) Accounting Management(c)Personnel Management(d)Merger

**Ans: (a)**

2 .The financial management functions have become \_\_\_\_\_ and complex.

1. Less demanding(b) More demanding(c) Less important(d) Outdated

**Ans: (b)**

3. The \_\_\_\_\_\_ approach of financial management provides analytical framework for financial problems.

(a)Classical (b)Traditional (c) Modern (d) Empirical

**Ans:(c)**

4. The \_\_\_\_\_\_approach of financial management fully ignores the internal decision-making.

(a) Business finance (b) Traditional (c) Modern (d) two sided

**Ans:(b)**

5. \_\_\_\_\_\_\_ is the main goal of financial management.

(a)Profit maximization (b) fund transfer (c) maximum returns (d) wealth maximization

**Ans:(d)**

6. The main objective of financial management of an enterprise is to \_\_\_\_\_\_\_\_\_.

(a)maximize the business expenses (b) maximize the profit (c) maintain bill and payments (d)maximise the production costs

**Ans:(b)**

7. The concept of Financial management is mainly related to \_\_\_\_\_\_

(a) arrangement of funds for the company (b) procurement & utilization of funds for company operations (c) profit maximization for the organization (d) accounting of profit and loss on yearly basis

**Ans:(b)**

8. For maximizing the profit, the costs should be \_\_\_\_\_\_.

(a) minimized (b) ignored (c) maximized (d) upgraded

**Ans: (a)**

9. \_\_\_\_\_\_\_\_\_ maximization objectives fail to recognize quality of benefits i.e. risk factor.

(a) Value (b) Wealth (c) Profit (d) Both A & B

**Ans:(c)**

10. \_\_\_\_\_ Maximization objective ignores timing of benefit i.e time value of money.

(a) Profit (b) Wealth (c) Value (d) Both A & B

**Ans: (c)**

11. Financial Management is mainly concerned with *\_\_\_\_\_\_\_\_*.

(a) acquiring financial resources for firms activities (b) utilizing financial resources for firms activities (c) procurement of funds of the enterprise (d) All of the above

**Ans:(d)**

12. Select correct option.

(a). Profits maximisation can be part of a Wealth maximisation strategy (b). Wealth maximisation can be part of a Profits maximisation strategy (c). Profits maximisation and Wealth maximisation strategy are the same (d). Wealth maximisation is completely different from Profits maximisation strategy

**Ans:(a)**

13. According to Massie, Financial management is the \_\_\_\_\_\_\_\_\_\_activity of a business.

(a)operational(b) marketing (c) human resource management (d) sales

**Ans: (a)**

14. Financial management process deals with \_\_\_\_\_\_\_

(a)investments(b) financing decisions (c) profit maximization (d) more assets

**Ans:(b)**

15. Financial management mainly focuses on \_\_\_\_\_\_\_.

(a). Arrangement of funds (b) Efficient management of every business (c) Brand dimension

(d) All elements of acquiring and using means of financial resources for financial activities

Ans: (d)

16. Financial management is a \_\_\_\_\_\_\_ function of any business.

(a)organic(b) inorganic (c) conventional(d). least important

**Ans: (a)**

**Time value of Money:**

17. The concept that value of a rupee to be received in future is less than the value of a rupee on hand today is known as------

(a) Recovery factor concept (b) Time value of money (c) Compounding factor concept (d) None of the above

**Ans: (b)**

18. The process of calculating future value of cash flows is known as-----

(a) Discounting (b) Compounding

**Ans: (d)**

19. The method that converts the amount of present cash into an amount of cash of equivalent value in future is------

(a) Budgeting (b) Discounting method (c) Both (d) Compounding method

**Ans:(d)**

20. A fixed cash flow in each year for a specified number of years is called as…….

(a) Annuity (b) Recovery factor (c) Discounting (d) Compounding

**Ans:(a)**

21. The method of converting the amount of future cash into an amount of cash and cash equivalents value in present is known as -----------

(a) Compounding(b) Annuity(c) Discounting(d) None of these

**Ans:(c)**

22. The reciprocal of the present value of annuity is known as ----------

(a) Compounding factor(b) Capital recovery factor(c) Discounted factor(d) None of these

**Ans: (b)**

23. The total of stream of discounted expected cash benefits from a course of action over period of time is called as-----

(a) Capital (b) Net Present Value (c) Gross present value(d) None of these

**Ans: (c)**

24. The difference between present value of cash inflows and present value of cash outflows

is known as---------

(a)Gross present value(b)Capital(c)Net present value(d)None of these

**Ans: (c)**

25. Present value takes………..?

(a) Compounding rate(b) Deflation rate(c) Inflation rate(d) Discounting rate

**Ans: (d)**

26. The excess of the present value of benefits over the present value of costs of a course of

 Action is called as------

(a) Payoff(b) Benefits(c) Wealth(d) All of these

**Ans: (c)**

**Cost of Capital :**

27. For which of the following costs is it generally necessary to apply a tax adjustment to a yield measure?

(a) Cost of debt (b) Cost of preferred stock (c) Cost of common equity (d) Cost of retained earnings

**Ans: (a)**

28. The cost of equity share or debt is called –

(a) Related cost of capital (b) Easy to calculate cost of capital (c) Specific cost of capital (d) Burden on the shareholder

**Ans:(c)**

29. In which of the following method cost of equity capital is computed by dividing the dividend by market price per share or net proceeds per share?

(a) Price Earning Method (b) Adjusted Price Method (c) Adjusted Dividend Method (d) Dividend Yield Method

**Ans:(d)**

30. In weighted average cost of capital, a company can affect its capital cost through –

1. Policy of capital structure

2. Policy of dividends

3. Policy of investment

Select the correct answer from the options given below:

(a) 1 only (b) 2 & 3 (c) 1 & 3 (d) All 1, 2 & 3

**Ans:(d)**

31. ……….. is the rate of return associated with the best investment opportunity for the firm and its shareholders that will be forgone if the projects presently under consideration by the firm were accepted.

(a) Explicit Cost (b) Future Cost (c) Implicit Cost (d) Specific Cost

**Ans:(c)**

32. Cost of capital is equal to required return rate on equity in case if investors are only –

(a) Valuation Manager (b) Common Stockholders (c) Asset Seller (d) Equity Dealer

**Ans:(b)**

33. Marginal cost is----

(a) is the weighted average cost of new finance raised by the company. (b) is the additional cost of capital when the company goes for further raising of finance. (c) is the cost of raising an additional rupee of capital. (d) All of the above

**Ans:(d)**

34. Cost of capital does not mean \_\_\_\_.

**a) cut off rate decided by management**

b) rate of interest

c) expectations of investors for dividend

d) money paid to SEBI for permission to acquire capital

35. The cost of equity share or debt is called specific cost of capital. When specific costs are combined, then we arrive at ---------

(a) Maximum rate of return

(b) Internal rate of return

(c) Overall cost of capital

(d) Accounting rate of return

**Ans:(c)**

36. Interest rates, tax rates and market risk premium are factors which -------

(a) Industry cannot control (b) Industry can control (c) Firm must control (d) Firm cannot control

**Ans: (d)**

37. What are the considerations in designing capital structure of a company?

a) trading on equity b) cost of capital

c) profitability **d) all the above**

38. For each component of capital, a required rate of return is considered as--------

(a) Component cost (b) Evaluating cost (c) Asset cost (d) Asset depreciation value

**Ans:(a)**

39. …….. is the rate that the firm pays to procure financing.

(a) Average Cost of Capital (b) Combine Cost (c) Economic Cost (d) Explicit Cost

**Ans:(d)**

40.Whichof the following method of cost of equity is similar to the dividend price approach?

(a) Discounted cash flow (DCF) method (b) Capital asset pricing model (c) Price earning method (d) After tax equity method

**Ans:(c)**

41. Preference dividend is divided by preferred stock price multiply by (1 – floatation cost) is used to calculate –

(a) Transaction cost of preferred stock (b) Financing of preferred stock (c) Weighted cost of capital (d) Component cost of preferred stock

**Ans: (d)**

42. How you will calculate expected dividend i e. dividend at the end of year one?

(a) D1 = [D0 (1 + g)] (b) D1 = [D0 (1 -t)] (c) D1 = [D0× (1 – g)] (d) D1 = [D0 +(1 – g)](1 -t)

**Ans:(a)**

43. In weighted average cost of capital, rise in interest rate leads to -------

(a) Increase in cost of debt (b) Increase the capital structure (c) Decrease in cost of debt (d) Decrease the capital structure

**Ans: (a)**

44. ………… is the cost which has already been incurred for financing a particular project

(a) Future Cost (b) Historical Cost (c) Implicit Cost (d) Opportunity Cost

**Ans: (b)**

45. In weighted average cost of capital, capital components are funds that are usually offered by:

(a) Stock market (b) Investors (c) Capitalist (d) Exchange index

**Ans:(b)**

46. Overall cost of capital is called as –

(a) Composite cost of capital (b) Combined cost of capital (c) Both (a) and (b) (d) Neither (a) nor (b)

**Ans: (c)**

47.Which of the following figure is irrelevant while calculating cost of redeemable preference shares?

(a) Floatation cost (b) Discount (c) EPS (d) Net proceeds

**Ans: (c)**

48. An interest rate which is paid by firm as soon as it issues debt is classified as pre-tax –

(a) Term structure (b) Market premium (c) Risk premium (d) Cost of debt

**Ans: (d)**

49.Which of the following is controllable factor affecting the cost of capital of the firm?

(a) Dividend policy (b) Level of interest rates (c) Tax rates (d) All of the above

**Ans: (a)**

50. Which of the following is uncontrollable factor affecting the cost of capital of the firm?

(a) Investment Policy

(b) Capital Structure Policy

(c) Debt service charges

(d) None of the above

**Ans: (d)**

51. Which one of the following is not used to estimate cost of equity capital?

**a) External yield criterion**

b) dividend plus growth rate

c) equity capitalization approach

d) capital asset pricing method

52. Which of the following is correct formula to calculate cost of irredeemable preference shares?

(a) Preference dividend ÷ Net proceeds (b) Preference dividend × (1 -t) (c) [Preference dividend × (1 -t)] ÷ Net proceeds (d) [Preference dividend -n Net proceeds] × (1-t)

**Ans: (a)**

53. Which of the following factor affects the determination of cost of capital of the firm?

(a) General economic conditions (b) Market conditions (c) Operating and financing decisions (d) All of the above

**Ans: (d)**

54. Cost of capital is lowest in case of \_\_\_\_.

**a) Debt** b) Equity c) loans d) bonds

55. During planning period, marginal cost to raise a new debt is classified as ----------

(a) Debt cost (b) Borrowing cost (c) Relevant cost (d) Embedded cost

**Ans: (c)**

56. After tax cost of debentures not redeemable during the life time of the company is –

(a) [Interest -5- Net proceeds] × (1 -t) (b) Interest × (1 -t) ÷ Net proceeds (c) Interest × (1 +t) ÷ Net proceeds (d) [Interest ÷ Net proceeds] × (1 +t)

**Ans: (b)**

57. A firm’s overall cost of capital -------

(a) varies inversely with its cost of debt.

(b) is unaffected by changes in the tax rate.

(c) is another term for the firm’s internal rate of return.

(d) is the required return on the total assets of a firm.

**Ans: (d)**

58. Future value of annuity is \_\_\_\_.

a) equal to annuity amount

b) less than annuity amount

**c) compound value annuity**

d) none of the above

59. The overall (weighted average) cost of capital is composed of a weighted average of------

(a) the cost of common equity and the cost of debt (b) the cost of common equity and the cost of preferred stock (c) the cost of preferred stock and the cost of debt (d) the cost of common equity, the cost of preferred stock, and the cost of debt

**Ans:(d)**

60. While calculating the Weighted Average Cost of Capital, cost of each component of the capital is weighted ------

(a) In the ratio of 1:2:3:4 (b) by the relative proportion of that type of funds in the capital structure. (c) by the relative proportion of that type of funds to total assets in the company (d) Both (a) and (c)

**Ans: (b)**

**UNIT-II**

**CAPITAL STRUCTURE**

1.…………. refers to the mix of a firm’s capitalization and includes long term sources of funds.

(a) Leverage (b) Capital structure (c) Debt mix (d) Owner’s equity

**Ans: (b)**

2. The term “capital structure” refers to---------

(a) Current assets & current liabilities (b) Long-term debt, preferred stock, and common stock equity (c) Total assets minus liabilities (d) Share holders’ equity

**Ans: (b)**

3. The decisions regarding the forms of financing, their requirements and their relative proportions in total capitalization known as –

(a) Equity decisions (b) Equilibrium decisions (c) Outright decisions (d) Capital structure decisions

**Ans: (d)**

4. Which of the following statement is false?

I. In case the firm wants to grow at a faster pace, it would be required to incorporate debt in its capital structure to a greater extent.

II. If the firm has no long term debt in its capital structure, it means that either it is risk averse or it has cost of equity capital or cost of retained earnings less than the cost of debt.

Select the correct answer from the options given below:

(a) Statement I is true while Statement II is false. (b) Statement I is false while Statement II is true. (c) Both Statement I and Statement II are false. (d) Both Statement I and Statement II are true.

**Ans:(d)**

5. While designing a capital structure a finance manager should choose a pattern of capital which ------

(a) Minimizes cost of capital (b) Maximizes the owners return. (c) Maximizes cost of capital and minimizes the owners return. (d) Both (a) and (b)

**Ans: (d)**

6. Which of the following changes in capital structure would you recommend for growth at faster rate?

(a) Incorporate more retained earnings out of profit and loss account. (b) Incorporate debt in its capital structure to a greater extent. (c) Merge with other companies. (d) Pay more dividends to equity share-holders.

**Ans: (b)**

7. The manner in which an Organizations’ assets are financed is referred to as its –

(a) capital structure(b) financial structure(c) asset structure(d) owners structure

**Ans: (b)**

8. Capital structure is \_\_\_ financial structure.

**a) a part of** b) not a part of

c) the same as d) different from

9. Optimal capital structure consists of -…………..

(a) Appropriate mix of fixed assets and current assets. (b) Appropriate mix of long term debts and fixed assets. (c) Appropriate mix of sales and profit. (d) Appropriate mix of debt and equity.

**Ans: (d)**

10. Which of the following shows significance of capital structure?

(a) Capital structure reflects the overall strategy of the firm.

(b) One can get a reasonably accurate broad idea about the risk profile of the firm from its

capitalstructure.

(c) The capital structure acts as a tax management tool.

(d) All of the above

**Ans(d)**

11. Financial structure involves creation of (1) Long term assets (2) Short term assets

Select the correct answer from the options given below:

(a) (2) only (b) Neither (1) nor (2) (c) (1) only (d) Both (1) and (2)

**Ans: (d)**

12. Which of the following is not included in capital structure?

(a) Long term debt

(b) Preferred stock

(c) Current assets

(d) Retained earnings

**Ans: (c)**

13.Which of the following statement is incorrect?

(1) High debt funds in capital structure increases EPS.

(2) High debt funds increases the operating or business risk.

Select the correct answer from the options given below:

(a) Both Statement 1 and Statement 2 are correct. (b) Statement 1 is correct while Statement 2 is incorrect. (c) Statement 2 is correct while Statement 1 is incorrect. (d) Both Statement 1 and Statement 2 are incorrect.

**Ans: (d)**

14. Financial structure is ……………. concept while capital structure is ------- concept

(a) inappropriate; appropriate (b) appropriate; inappropriate (c) narrow; broader (d) broader; narrow

**Ans: (d)**

15. Assertion (A):

The capital structure should be determined within the debt capacity of the company and this capacity should not be exceeded.

Reason (R):

The debt capacity of a company depends on its ability to generate future cash flows. It should have enough cash to pay creditors’ fixed charges and principal sum.

Select the correct answer from the options given below:

(a) A is true but R is false (b) A is false but R is true. (c) Both A and R are true but R is not correct explanation of A. (d) Both A and Rare true and R is correct explanation of A.

**Ans: (d)**

16. Which of the following capital structure consist of zero debt components in the structure mix?

(a) Pyramid Shaped Capital Structure (b) Inverted Pyramid Shaped Capital Structure (c) Horizontal Capital Structure (d) Vertical Capital Structure

**Ans: (c)**

17. Which of the following statement is false?

(a) The use of excessive debt threatens the solvency of the company. (b) A firm having operating loss would find it worthwhile to incorporate debt in the capital structure in a greater measure. (c) The capital structure should be flexible. (d) None of the above

**Ans: (b)**

18. One can get a reasonably accurate broad idea about the risk profile of the firm from its –

(a) Dividend policy

(b) Capital structure

(c) Debt service ratio

(d) Earning yield

**Ans: (b)**

19. A critical assumption of the net operating income (NOI) approach to valuation is that------

(a) Debt and equity levels remain unchanged.

(b) Dividends increase at a constant rate.

(c)Ko remains constant regardless of changes in leverage.

(d) Interest expense and taxes are included in the calculation.

**Ans: (c)**

20. A critical assumption of the NOI approach to valuation is \_\_\_.

a) that debt and equity level remain changed

b) that dividends increase at a constant rate

**c) that Ko remains constant regardless of changes in leverage**

d) that interest expense and taxes are included in the calculation

21. Capital structure relates to …………. capital deployment for creation of ……… assets.

(a) long term; long term (b) long term; short term (c) short term; long term (d) short term; short term

**Ans:(a)**

22. Assertion (A):

The capital structure acts as a tax management tool also.

Reason (R):

Relatively lesser component of equity capital is vulnerable to hostile takeovers.

Select the correct answer from the options given below:

(a) A is true but R is false (b) A is false but R is true. (c) Both A and R are true but R is not correct explanation of A. (d) Both A and Rare true and R is correct explanation of A.

**Ans:(c)**

23. Two firms that are virtually identical except for their capital structure are selling in the market at different values. According to MM approach \_\_\_\_.

a) one will be at greater risk of bankruptcy

b) the firm with greater financial leverage will have the higher value

c) this proves that markets cannot be efficient

**d) this will not continue because arbitrage will eventually cause the firms to sell at the same value**.

24. One can design capital structure with proper proportions of equity, preference and debt mix. The choice of the combination of these sources is called –

(a) Structural mix (b) Policy mix (c) Capital structure mix (d) Finance mix

**Ans:(c)**

25.In horizontal capital structure –

(a) expansion of the firm takes place by issuance of debt securities. (b) expansion of the firm takes place by issuance of debt securities and preferred stocks. (c) expansion of the firm takes in a lateral manner, i.e. through equity or retained earning only. (d) expansion of the firm takes place by issuance of short term and marketable securities.

**Ans:(c)**

25. According to Cost Principle an ideal pattern of capital structure is one that -…………..

(a) Minimizes cost of capital structure (b) Maximizes earnings per share (EPS). (c) Both (a) and (b) (d) None of the above

**Ans:(c)**

26. In a …………. the base of the structure is formed by a small amount of equity share capital. This base serves as the foundation on which the super structure of preference share capital and debt is built.

(a) horizontal capital structure (b) vertical capital structure (c) diagonal capital structure (d) matrix capital structure

**Ans: (b**)

27. According to Risk Principle……..

(a) Reliance is placed on excessive use of debt financing for capital requirements than common equity.

(b) Reliance is placed on ability of finance manager than external analyst.

(c) Reliance is placed more on common equity for financing capital requirements than excessive use of debt.

(d) Reliance is placed more on short term finance for financing capital requirements than excessive use of working capital.

**Ans: (c)**

29. Use of more and more debt and preference capital -------

(a) affects equity share values and in unfavorable situation equity share prices may consequently drop.

(b) increases value of debt and preference capital and equity share.

(c) Increases the profit after tax (PAT) even though sales pattern shows decreasing trends.

(d) All of the above

**Ans: (a)**

30. Business Risk is --------

(a) Avoidable risk (b) Unavoidable risk (c) Not relevant (d) Less important than financial risk

**Ans: (b)**

31. Which of the following statement is true in relation to vertical capital structure?

(a) The incremental addition in the capital structure is almost entirely in the form of debt.

(b) The absence of debt it results in the lack of financial leverage and hence low financial risk.

(c) Since there is more equity shares EPS is likely to be high.

(d) For this capital structure combined leverage is very low as compared to other firms in industry which have more equity finance.

**Ans: (a)**

33. The rate of tax affects the ---------

(a) Cost of retained earnings (b) Cost of debt (c) Cost of equity (d) All of the above

**Ans: (d)**

34. A pyramid shaped capital structure has –

(a) Retained earnings of the firm which are usually lower than the cost of debt.

(b)A large proportion consisting of equity capital and retained earnings which have been ploughed back into the firm over a considerably large period of time.

(c) Incremental addition in the capital structure is almost entirely in the form of debt.

(d) Both (a) and (b)

**Ans: (d)**

35. Assertion A:

While making a choice of the capital structure the future cash flow position should be kept in mind.

Reason R:

Debt capital should be used only if the cash flow position is really good because a lot of cash is needed in order to make payment of interest and refund of capital.

Select the correct answer from the options given below:

(a) A is true and R is false

(b) A is false and R is true

(c) Both A and R are true and R is not correct explanation of A.

(d) Both A and Rare true and R is correct explanation of A.

**Ans: (d)**

36. To have optimal capital structure the firm must fulfill the following conditions:

I. Return on investment should be greater than cost of investment.

II. There should be minimum financial risk.

III. There is absence of equity finance.

IV. The capital structure should be flexible

V. Cost of investment should be greater than ROI.

Select correct answer from the options given below:

(a) III, I (b) IV,II & V (c) II, I & IV (d) II & IV

**Ans: (c)**

36. Business risk is influenced by------

(a) Revenue (b) Variable cost (c) Fixed assets (d) All of the above

**Ans: (d)**

37. Capital Structure of a firm -------

(a) Is a reflection of the overall investment and financing strategy of the firm.

(b) Shows how much reliance is being placed by the firm on external sources of finance and how much internal accrual is being used to finance expansions

(c) Means the structure or constitution or break-up of the capital employed by a firm.

(d) All of the above

**Ans: (d)**

38. With the help of Interest Coverage Ratio (ICR) ratio on effort is made to find out -----

(a) How many times the profit after tax (PAT) is available to the payment of interest.

(b) How many times the net operating profit after tax (NOPAT) is available to the payment of interest.

(c) How many times the EBIT is available to the payment of interest.

(d) Most suitable bank for negotiation.

**Ans: (c)**

39. Pyramid Shaped Capital Structure –

(a) Have a high proportion of fixed assets and considerably a very low proportion of current assets.

(b) Have a high proportion of debts and considerably a very low proportion of equity.

(c) Have a high proportion of equity and considerably a very low proportion of debt.

(d) Have a high proportion of current assets and considerably a very’ low proportion of liquid assets.

**Ans: (c)**

40. Traditional approach of capital structure is also known as -------

(a) Neutral approach (b)Mixed approach (c) Intermediate approach (d) Parallel

**Ans: (C)**

41.The costs independent of production, sales or earnings are known as-----------

(a) Variable costs (b) Total costs (c) Fixed costs (d) Marginal costs

**Ans: (c)**

42. Through leverage analysis the financial manager measure the relationship between--------

(a) Cost and earning (b) Sales revenue and earnings (c) Costs and sales revenue (d) Costs sales, revenue and earning

**Ans: (d)**

43. The relationship between the operating income and earnings per share is known as---------

(a) Financial leverage (b) Operating leverage (c) Composite leverage (d) Working capital leverage

**Ans: (a)**

44. Rent of building, salary of manager, lease payment, depreciation and property taxes are example of---------

(a) Both of the above(b) Variable operating costs(c) Fixed operating costs(d) None of the above

**Ans: (c)**

45. The term capital structure refers to -----

(a) current assets and current liabilities(b) long term debt, and equity(c) shareholders equity

(d) total assets.

Ans: (b)

The percentage change in the net operating income resulting from a percentage change in the sales in known as--------

(a) Degree of combined leverage(b) Degree of financial leverage(c) Degree of working leverage(d) Degree of operating leverage

**Ans: (d)**

**46**. The ability of an entity to use fixed financial charges to magnify the effects of changes in operating income on the earning per share in known as---------

(a) Composite leverage (b) Operating leverage (c) Financial leverage (d) Working capital leverage

**Ans: (c)**

47. The percentage change in taxable profit as a result of percentage change in operating profit is known as-------

(a) Degree of financial leverage (b) Degree of operating leverage (c) Degree of working leverage (d) Degree of combined leverage

**Ans: (a)**

48. The level of earnings before interest and taxes at which earning per share is zero is-------

(a) Financial break-even point (b) Indifferent point (c) Both of the above (d) None of the above

**Ans: (a)**

49. Which leverage measures the relationship between the sales, revenue and the taxable income?

(a) Financial leverage (b) Composite leverage (c) Operating leverage (d) Working capital leverage

**Ans: (b)**

50. EBIT is usually the same thing as \_\_\_.

a) funds provided by operations

b) earnings before tax

c) net income **d) operating profit**

51. The cost dependent on the level of production, sales or earnings are known as---------

(a) Variable costs (b) Total costs (c) Fixed costs (d) Marginal costs

**Ans: (a)**

52. The relationship between the sales, revenue and operating income is known as----------

(a) Financial leverage (b) Composite leverage (c) Working capital leverage (d) Operating leverage

**Ans: (d)**

53. The study of the relation between the sales revenue and earnings per share with the help of

(a) Financial leverage (b) Working capital leverage (c) Composite leverage (d) Operating leverage

**Ans:(c)**

54. Raw material costs, wages, electricity and other utilities are example of-------

(a) Variable operating costs (b) Fixed costs (c) Total costs (d) Marginal costs

**Ans: (a)**

55. Which leverage can be determined with the help of break-even analysis?

(a) Financial leverage (b) Composite leverage (c) Working capital leverage (d) Operating leverage

**Ans: (d)**

56. When an entity earn more on the assets purchased with the fixed cost funds than the fixed costs of their use is known as--------

(a) Favorable financial leverage (b) Positive financial leverage (c) Both of the above (d) None of the above

**Ans: (c)**

57. Trading on equity is possible only when the entity uses-------

(a) Financial leverage (b) Composite leverage (c) Working capital leverage (d) Operating leverage

**Ans: (a)**

**58.** A firm’s degree of total leverage is equal to its degree of operating leverage \_\_\_\_ degree of financial leverage.

a) plus b) minus c) divided by d) multiplied by

59. Financial risk is analysed with the help of---

(a) Operating leverage (b) Financial leverage (c) Combined leverage (d) None of the above.

**Ans: (b)**

60. Financial leverage is also known as ----

(a) Composite leverage (b)Break-even point (c) Trading on Equity (d) Capital structure leverage.

**Ans: (c)**

**UNIT-III**

**DIVIDEND POLICY**

1. Dividend policy determines\_\_\_

(a) What portion of earnings will be paid out to stock-holders, (b) What portion will be retained in the business to finance long-term growth.(c) Only (a) not (b), (d) Both(a) and (b)

**Ans: (d)**

2. Dividend constitutes the cash flow that accrues to -------

(a) Holders (b) Equity holders (c) Bondholders (d) All of the above

**Ans: (b)**

3. Which of the following factor will affect the dividend policy of the firm?

1. Insufficiency of cash

2. Firms contractual obligation

3. Ratio of debt to equity.

4. Business cycle considerations

Select the correct answer from the options given below.

(a) 1 and 3 only (b) 2 and 4 only (c) 2, 3 and 4 (d) 1,2, 3 and 4

**Ans:(d)**

4. Retained earnings are------

(a) An indication of a company’s liquidity. (b) The same as cash in the bank. (c) Not important when determining dividends. (d) The cumulative earnings of the company after dividends.

**Ans:(d)**

5. In retention growth model, percent of net income firms usually payout as shareholders dividends, is classified as -----

(a) Payout ratio (b) Payback ratio (c) Growth retention ratio (d) Present value of the ratio

**Ans:(b)**

6.As per Modigliani-Miller hypothesis of dividend irrelevance price of share at year zero is --------

(a) D0 + P0/1+Ke (b) (D1 + P1) × (1 + Ke) (c) D1 + P1/1 + Ke (d) 1 – (D0 + P0) ÷ Ke

**Ans:(C)**

7.All of the following are true of stock splits except------

(a) Market price per share is reduced after the split. (b) The number of outstanding shares is increased. (c) Retained earnings are changed. (d) Proportional ownership is unchanged.

**Ans: (c)**

8.Which of the following techniques does not reward shareholders for investing in a company?

(a) Repurchasing company shares (b) Offering non-pecuniary benefits (c) Making a rights issue (d) Offering a scrip dividend

**Ans:(c)**

9.The repurchase of stock is considered as a -------- decision rather than a ------ decision.

(a) An investment; a financing (b) Financing; an investment (c) An investment; a dividend

(d) A dividend; a financing

**Ans:(b)**

10. If OML Corporation buyback 10% of its outstanding common stock from the secondary market, the result would be -----

(a) A decline in EPS. (b) An increase in cash. (c) A decrease in total assets. (d) An increase in the number of stockholders.

**Ans:(c)**

11.The primary goal of a publicly-owned firm interested in serving its stockholders should be to---------

(a) Maximize expected total corporate profit

(b) Maximize expected EPS

(c) Maximize the stock price per share

(d) Maximize expected net income.

**Ans:(c)**

12. Forecast by analysts, retention growth model and historical growth rates are methods used for an –

(a) Estimate future growth (b) Estimate option future value (c) Estimate growth ratio (d) Estimate option present value

**Ans:(a)**

13.Historical growth rates, analysis forecasts, and retention growth model are approaches to estimate:

(a) the Net present value of gain (b) Growth rate (c) Growth gain (d) Discounted gain

**Ans: (b)**

14. A decrease in a firm’s willingness to pay dividends is likely to result from an increase in its -------

(a) Earnings stability (b) Access to capital markets (c) Profitable investment opportunities

(d) Collection of accounts receivable.

**Ans:(c)**

15. The payout ratio is subtracted from one to calculate --------

(a) Growth ratio (b) Present value ratio (c) Retention ratio (d) Future value ratio

**Ans: (c)**

16. Which of the following would not have an influence on the optimal dividend policy?

(a) The possibility of accelerating or delaying investment projects.

(b) A strong shareholders’ preference for current income versus capital gains.

(c) The costs associated with selling new common stock.

(d) All of the statements above can have an effect on dividend policy.

**Ans: (d)**

17. A stock split will cause a change in the total amounts shown in which of the following balance sheet accounts?

(a) Cash (b) Common stock (c) Paid-in capital (d) None of the above

**Ans: (d)**

18. You currently own 100 shares of stock in Baba Ltd. The stock currently trades at ₹ 120 a share. The company is contemplating a 2:1 stock split. Which of the following best describes your position after the proposed stock split takes place?

(a) You will have 200 shares of stock, and the stock will trade at or near ₹ 120 a share.

(b) You will have 200 shares of stock, and the stock will trade at or near ₹ 60 a share.

(c) You will have 100 shares of stock, and the stock will trade at or near ₹ 60 a share.

(d) You will have 50 shares of stock, and the stock will trade at or near ₹ 60 a share.

**Ans: (b)**

19. The dividend growth model can be used to compute the cost of equity for a firm in which of the following situations?

I. Firms that have a 100% retention ratio.

II. Firms that pay a constant dividend.

III Firms that pay an increasing dividend

IV. Firms that pay a decreasing dividend.

Select the correct answers from the options given below.

(a) I & II only (b) II & III only (c) II, III & IV only (d) I, II & III only

**Ans:(c)**

20. If markets are in equilibrium, which of the following will occur?

(a) Each investment’s expected return should equal its realized return. (b) Each investment’s expected return should equal its required return. (c) Each investment should have the same realized return.(d) All of the statements above are correct.

**Ans: (b)**

21. Regular Dividend Policy means\_\_\_

(a) Investors get dividends at the usual rate.

(b) Reserve fund is created to pay a fixed amount of dividend.

(c) Payment of low dividend per share constantly plus extra dividend in the year when the company earns a high profit.

(d) All of the above

**Ans:(d)**

22. Modigliani and Miller argue that the dividend decision-------

(a) Is irrelevant as the value of the firm is based on the earning power of its assets.

(b) Is relevant as the value of the firm is not based just on the earning power of its assets.

(c) Is irrelevant as dividends represent cash leaving the firm to shareholders, who own the firm anyway.

(d) Is relevant as cash outflow always influences other firm decisions

**Ans:(a)**

23. If you are calculating market price by using Gordon’s Model, increasing payout ratio other things remaining the same will--------

(a) Increase the price per share (b) Decrease the price per share (c) Will not have any effect on the price of the share (d) Price will remain constant.

**Ans:(a)**

24.As per Gordon’s Model, whether the company adopts 50%, 80%, or any other payout ratio, the market price will remain the same when--------

(a) Ke> r (b) Ke< r (c) Ke = r (d) Ke>Rf

**Ans:(a)**

25. If you are calculating the market priceby using the dividend growth method ie. D1 ÷ (Ke – g) increase in growth rate leads to-------

(a) Fall in the market price of the stock (b) Increase in the market price of the stock (c) No change in the market price of the stock (d) None of the above

**Ans:(b)**

26. The relevance theory of dividend was supported by -----

(a)Walter (b)Gordon (c) Both of the above (d) None of the above.

**Ans: (c)**

27. As per Walter’s Model the firm should retain the profits if -----

(a) r>k (b) r=k (c)r<k (d) None of these.

**Ans:(a)**

28. As per Walter’s Model when r < k decrease in retention ratio will lead to –

(a) Increase in market price (b) Decrease in market price (c) No change in market price (d) None of the above

**Ans:(a)**

29. According to Walter, the firm should pay 100% dividend if ----

(a) a) r>k (b) r=k (c)r<k (d) None of these.

**Ans:(c)**

30. As per Walter’s Model when r > k increase in dividend payout ratio will lead to ----

(a) Increase in market price (b) Decrease in market price (c) No change in market price (d) No change in market price

**Ans:(b)**

31. As per Walter’s Model when r > k decrease in retention ratio will lead to –

(a) Increase in market price (b) Decrease in market price (c) No change in market price

(d) No change in market price

**Ans:(b)**

32. Which of the following is the correct formula to calculate market price as per MM Model?

(a) Po = (1 + Ke) ÷ (D1 + P1) (b) Po = (D1 + P1) × (1 + Ke) (c) Po = (D1 + P1) ÷ (1 + Ke)

(d) Po = (D1 + P1) ÷ (1 – Ke)

**Ans:(c)**

33. As per the MM Model total value of the firm remains the same whether it declares dividends or not. You are required to state if the dividend is declared the market price per share as per MM Model –

(a) Increase (b) Decreases (c) Remain constant (d) None of the above

**Ans: (a) Increase**

34. Which one of the following is a non-cash payment made by a firm to its shareholders that dilute the value of each share of stock outstanding?

(a) Reverse stock split (b) Cash distribution (c) Stock dividend (d) Regular dividend

**Ans: (c)**

35. Market price =?

(a) D1 ÷ (Ke – g) (b) EPS × P/E Ratio (c) (D1 + P1) ÷ (1 + Ke) (d) All of the above

**Ans: (d)**

36. Which one of the following are sources of dividends?

(a) Current year’s profit (b) Past year’s profit(c) Money provided by the Government (d) All of the above

**Ans: (d)**

37. The target payout ratio is----

(a) A firm’s preferred rate of dividend growth. (b) The inverse of a firm’s equity multiplier.

(c) The preferred number of dividend payments per year divided by 12.(d) A firm’s long-term desired dividend-to-earnings ratio.

**Ans: (d)**

38. Which one of the following statements concerning cash dividends is correct?

(a) The chief financial officer of a corporation determines whether or not a dividend will be paid. (b) A dividend is not a liability of a firm until it has been declared. (c) If a firm has paid regular quarterly dividends in the past it is legally obligated to continue doing so. (d) Cash dividends always reduce the paid-in capital account balance

**Ans: (b)** .

39. When a firm is short of cash yet it wishes to distribute something to shareholders, it should consider --------

(a) Cash dividend. (b) Liquidating dividend (c) Stock dividend (d) None of the above

**Ans:(c)**

40. A company wants to buy back stock. How will this impact the company and its stock?

(a) The company makes more money because management owns more stock.

(b) Other investors make less money because management can pay more dividends to interned shareholders before external shareholders.

(c) Because there are fewer shares in the open market, the price of the shares goes up.

(d) The net income of the company will go up because of the increase in stocks

**Ans:(c)**

41. Which of the following would ultimately give the greatest benefit to stockholders?

(a) A stock buyback (b) The issuance of a bond (c) A stock split (d) The issuance of new stock

**Ans:(a)**

42. Stock dividend is also known as ----

(a) Bonus shares(b) Scrip dividend(c) Right shares (d) Property dividend

**Ans: (a)**

43. Required return X Retention Ratio =?

(a) Ke (Cost of equity) (b) WACC (c) B(Beta) (d) g (Growth Rate)

**Ans:(d)**

44. \_\_\_ is a non-recurring dividend paid to shareholders in addition to the regular dividend.

a) stock split b) stock dividend

**c) an extra dividend** d) a regular dividend

45. What is not a part of investment decision in financial management?

a) Dividend payout decision

b) working capital management

**c) capital budgeting decision**

d) payable management

46. 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

47. If Ke = r, then under Walter’s Model, which of the following is irrelevant?

a) Dividend per share

b) Earnings per share

**c) D/P ratio**

d) none of the above

48. 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 the above

49. In case of Gordon’s model, the market price per share for zero payout is zero. It means that \_\_\_\_.

a) shares are not traded

b) shares available at free cost of cost

**c) investors are not ready to offer any price**

d) none of the above

50. Which of the following would not have an influence on the optimal dividend policy?

a) possibility of accelerating or delaying investment projects

b) a strong shareholders’ preference for current income versus capital gains

c) the costs associated with selling new common stock

**d) all of the statements above can have an effect on dividend policy**

51. Dividend \_\_\_\_ the component of the total rate of return.

a) capital return **b) current return**

c) both d) none of these

52. Dividend can be paid in the form of \_\_\_\_.

a) share b) security

c) cash **d) all of these**

53. \_\_\_\_ dividend policy can be considered as long term dividend.

a) liberal b) strict c**) stable**  d) none

54. Dividend is derived from the Latin word \_\_\_\_.

a**) dividendum**  b) divend

c) divided d) none

55. Dividend policy of a company is mainly concerned with \_\_\_\_.

a) Dividend payout b) stability of dividend

**c) both** d) none

56. Stock dividend is also known as \_\_\_.

a) scrip dividend **b) bonus shares**

c) right shares d) property dividend

57. The relevance theory of dividend was supported by \_\_\_.

a) Walter b) Gordon

**c) Both** d) None

58. The policy on quantum of dividend to be distributed as dividend is termed as ----

(a) profit sharing policy (b) appropriation (c) dividend policy (d) distribution policy.

**Ans: (c)**

59. ---- is also known as dividend capitalization model.

(a) Walter’s model (b) Gordon’s model (c) Modiglani& Miller model (d) None ofd these

**Ans:(b)**

60. In Walter’s model alphabet ‘D’ in the formula stands for—

(a) Dividend per share (b) Dividend earning (c)Direct dividend (d) None of these

**Ans: (a)**

**UNIT-IV**

**Capital budgeting**

1. Capital budgeting is the process –  
(a) which help to make master budget of the organization.  
(b) By which the firm decides how much capital to invest in business  
(c) by which the firm decides which long-term investments to make.  
(d) undertaken to analyse how to make available various finance to the business.  
**Ans:(c)**

2.The values of the future net incomes discounted by the cost of capital are called –  
(a) Average capital cost(b) Discounted capital cost(c) Net capital cost(d) Net present values  
**Ans:(d)**

3. The decision to accept or reject a capital budgeting project depends on –  
(a) an analysis of the cash flows generated by the project  
(b) cost of capital that are invested in business/project.  
(c) Both (a) and (b)  
(d) Neither (a) nor (b)  
**Ans:(c)**

4. The Internal Rate of Return (IRR) criterion for project acceptance, under theoretically infinite funds is------  
(a) IRR equal to the cost of capital (b) IRR greater than the cost of capital (c) IRR less than the cost of capital (d) None of the above  
**Ans:(b)**

5.…………… is a project whose cash flows are not affected by the accept/reject decision for other projects.  
(a) Mutually exclusive project (b) Independent project(c) Low cost project(d) Risk project.  
**Ans:(b)**

6.Where capital availability is unlimited and the projects are not mutually exclusive, for the same cost of capital, following criterion is used?  
(a) Net present value (b) Internal Rate of Return(c) Profitability Index(d) Any of the above  
**Ans: (d)**

7. The investment made in fixed assets is known as----

(a)Revenue expenditure (b) Capital expenditure (c) Rental expenditure (d) None of these.

**Ans: (b).**

8. The investment decision analysis encompasses the risk-return analysis of ----

(a)Long term investment proposals (b) Short term investment proposals (c)Both of these (d)None of these.

**Ans: (c)**

9. Capital budgeting is also known as \_\_\_.

a) investment decisions making

b) planning capital expenditure

c) both d) none

10.The investment decisions which are concerned with the allocation of funds of an entity to the long term investment proposals are known as ----

(a)Capital investment (b)Capital budgeting (c)Both of these (d)None of these

**Ans: (c)**

11.The decisions which are concerned with the allocation of funds of an entity to the short term investment proposals are known as ----

(a)Capital investment (b)Capital budgeting (c)Working capital decisions (d)None of these

**Ans: (c)**

1. The art of making plans in quantitative manner to ensure profitability and growth is ---------

(a)Budgeting (b)Discounting (c) Compounding (d)None of these

**Ans: (a)**

1. Financial managers consider capital budgeting as a very important function of finance due to ------

(a)Large investment (b)Long term effect on profitability (c) Long term funds (d)All of these.

**Ans: (d)**

1. The capital budgeting decisions encompass the decisions relating to ---

(a)Independent investment proposals (b)Mutually exclusive proposals (c)Contingent investment proposals (d)All of these.

**Ans: (d)**

1. The process of owning and acquiring resources to generate income in future is ----

(a)Financing decision (b)Dividend decisions (c)Investment decisions (d)None of these

**Ans:(c)**

1. The criteria that do not take time value of money into consideration are known as---

(a)Discounted criteria (b) Traditional criteria (c)Both of these (d)None of these

Ans:(b)

1. The overall objective of capital budgeting is to ----

(a)Maximise the wealth (b)reduce costs (c)increase revenues (d)None of these

**Ans: (a**).

1. The payback period method give much emphasis on ----

(a)profitability (b)Whole life earnings (c)Liquidity (d)Time factor

**Ans:(c)**

1. The length of time needed to recover the initial cash outlay of the investment proposals is called as ---

(a)Pay back period (b)Return period (c)Accounting period (d)None of these

**Ans:(a)**

1. The criteria which measures the profitability in terms of relation between income and investment is known as ------

(a)Pay back period (b)time value of money (c)Accounting rate of return (d)None of these.

**Ans:(c)**

1. A discount rate that equates the present value of inflows to the present value of cash outflows is known as -----

(a)Rate of return (b)Cost of capital (c) internal rate of return (d)None of these.

**Ans:(c)**

1. The advantages of ARR criteria are ---

(a)Takes whole life earnings (b)Emphasis on profitability (c)Easy computation (d)All of these.

**Ans:(d).**

1. The criteria which compares the present value of cash inflows with the present value of cash outflows is known as ---

(a)Present value criteria (b)Accounting rate of return criteria (c)pay back period criteria (d)None of these.

**Ans:(a).**

1. A sound capital budgeting technique is based on ----

(a)Cash flows (b)Accounting profit (c)Interest rate on borrowings (d)Last dividend paid

**Ans:(a).**

1. 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

**Ans:(c).**

1. Which of the following is not included in incremental flows?

(a)Opportunity cost (b)Sunk cost (c)Change in working capital (d) Inflation cost

Ans:(b).

1. In capital budgeting Sunk cost is excluded because it is ---
2. Of small amount (b)not incremental (c)not reversible (d) All of the above.

**Ans:(b).**

1. Risk in capital budgeting implies that the decision maker knows --- of the cash flows.

(a)Variability (b)profitability (c)certainty (d)None of these

**Ans:(b).**

29. Which of the following represents the amount of time that it takes for a capital budgeting project to recover its initial cost?  
(a) Maturity period (b) Payback period (c) Redemption period (d) Investment period  
**Ans:(b)**

30. Incorporating flotation costs into the analysis of a project will-------  
(a) have no effect on the present value of the project. (b) increase the NPV of the project. (c) increasethe project’s rate of return. (d) increase the initial cash outflow of the project.  
**Ans:(d)**

31. A project is accepted when:  
(a) Net present value is greater than zero (b) Internal Rate of Return will be greater than cost of capital (c) Profitability index will be greater than unity (d) Any of the above  
**Ans:(d)**

32. When choosing among mutually exclusive projects, the project with –  
(a) Longest payback is preferred

(b) Higher NPV get selected

(c) Quickest payback is preferred

(d) Lower cost of capital will be selected

**Ans: (b)**

33. With limited finance and a number of project proposals at hand, select that package of projects which has:  
(a) The maximum net present value  
(b) Internal rate of return is greater than cost of capital  
(c) Profitability index is greater than unity  
(d) Any of the above  
**Ans:(a)**

34. The shorter the payback period –  
(a) the more risky is the project.  
(b) the less risky is the project.  
(c) less will the NPV of the project.  
(d) more will the NPV of the project  
**Ans:(b)**

35. Ranking projects according to their ability to repay quickly may be useful to firms:  
(a) when experiencing liquidity constraints.  
(b) when careful control over cash is required.  
(c) to indicate the prospective investors specifying when their funds are likely to be repaid.  
(d) All of the above  
**Ans;(d)**

36. Capital budgeting decisions are analyzed with help of weighted average and for this purpose –  
(a) Component cost is used I  
(b) Common stock value is used  
(c) Cost of capital is used  
(d) Asset valuation is used  
**Ans:(c)**

37. Which of the following is demerit of payback period?  
(a) It is difficult to calculate as well as understand it as compared to accounting rate of return method.  
(b) This method disregards the initial investment involved.  
(c) It fails to take into account the timing of returns and the cost of capital.  
(d) None of the above  
**Ans:(c)**

38.A project whose acceptance does not prevent or require the acceptance of one or more alternative projects is referred to as------  
(a) Mutually exclusive project  
(b) Independent project  
(c) Dependent project  
(d) Contingent project  
**Ans:(b)**

**39. \_\_\_**  is not a capital budgeting decision.

a) expansion programme

b) acquisition of long term asset

c) replacement of an existing asset

**d) inventory control**

40. Capital budgeting is a part of \_\_\_\_.

a**) investment decision**

b) working capital management

c) marketing management

d) capital structure

41. Which of the following method of capital budgeting ignores the time value of money?  
(a) Discounted payback period  
(b) Net present value  
(c) Internal rate of return  
(d) None of the above  
**Ans:(d)**

42.As per discounted payback period method, a project with --------  
(a) more discounted payback period will be selected.  
(b) higher NPV will be preferred.  
(c) low NPV will be preferred.  
(d) less discounted payback period will be selected.  
**Ans:(d)**

43.A single, overall cost of capital is often used to evaluate projects because-------  
(a) it avoids the problem of computing the required rate of return for each investment proposal.  
(b) it is the only way to measure a firm’s required return.  
(c) it acknowledges that most new investment projects have about the same degree of risk.  
(d) it acknowledges that most new investment projects offer about the same expected return.  
**Ans:(a)**

44. A project whose acceptance precludes the acceptance of one or more alternative projects is referred to as …………..  
(a) Mutually exclusive project  
(b) Independent project  
(c) Dependent project  
(d) Contingent project  
**Ans:(a)**

45. How ARR is calculated?  
(a) (Average PAT/Initial Investment) × 100  
(b) (Average NPV/Investment) × 100  
(c) (Average PAT/Initial Investment) ÷ 100  
(d) (Initial Investment/Average PAT) × 100  
**Ans:(a)**   
46. Which of the following is demerit of accounting rate of return (ARR) method?  
(a) It does not take into accounting time value of money.  
(b) It fails to measure properly the rates of return on a project even if the cash flows are even over the project life.  
(c) It is biased against short-term projects in the same way that payback is biased against longer term ones.  
(d) All of the above  
**Ans:(d)**

47. NPV = ?  
(a) Project’s cash inflows minus the project’s cash outflows.  
(b) Project’s cash inflows after tax minus the project’s cash outflows.  
(c) Present value of the project’s cash inflows minus the present value of the project’s cash outflows.  
(d) Present value of the project’s cash inflows minus the present value of the project’s cash outflows in initial year ignoring the present value of cash flows in subsequent years.  
**Ans:(c)**

48. Which of the following statement is true in relation to NPV Method?  
1. It considers the total benefits arising out of proposals over its lifetime.  
2. It recognizes the time value of money.  
3. It produces multiple rates, which can be confusing.  
4. NPV can never be zero if cash flows are discounted by using risk free rate.  
Select the correct answer from the options given below.  
(a) 1 & 3  
(b) 1,2 & 3  
(c) 2,3 & 4  
(d) 1 & 2  
**Ans:(d)**

49. ……………. is an investment appraisal technique calculated by dividing the present value of future cash flows of a project by the initial investment required for the project.  
(a) Indexed cost method  
(b) Profitability index  
(c) Cost benefit ratio  
(d) Both (b) and (c)  
**Ans:(d)**

50. Accept a project if the profitability index is-------  
(a) less than 1  
(b) positive  
(c) greater than 1  
(d) negative  
**Ans:(b)**

51. Which of the following capital budgeting techniques takes into account the incremental accounting income rather than cash flows?  
(a) Net present value  
(b) Internal rate of return  
(c) Accounting/simple rate of return  
(d) Cash payback period  
**Ans:(c)**

52. The IRR decision rule specifies that all independent projects –  
(a) with positive NPV should be selected.  
(b) with an IRR greater than the cost of capital should be accepted.  
(c) having IRR greater economic value added should be selected.  
(d) with an IRR greater than the cost of capital should be accepted though it have negative NPV.  
**Ans:(b)**

53. The current worth of a sum of money to be received at a future date is called:  
(a) Real value  
(b) Future value  
(c) Present value  
(d) Salvage value  
**Ans:(c)**

54. The difference between the present value of cash inflows and the present value of cash outflows associated with a project is known as-----  
(a) Net present value of the project  
(b) Net future value of the project  
(c) Net historical value of the project  
(d) Net salvage value of the project  
**Ans:(a)**

55. Generally, a project is considered acceptable if its net present value is------  
(a) Negative or zero  
(b) Negative or positive  
(c) Positive or zero  
(d) Negative  
**Ans:(c)**

56. An increase in the discount rate will----  
(a) Reduce the present value of future cash flows.  
(b) Increase the present value of future cash flows.  
(c) Have no effect on net present value.  
(d) Compensate for reduced risk.  
**Ans:(a)**

57. Using profitability index, the preference rule for ranking projects is------  
(a) the lower the profitability index, the more desirable the project.  
(b) the higher the profitability index, the more desirable the project.  
(c) the lower the sunk cost, the more desirable the project.  
(d) the higher the sunk cost, the more desirable the project.  
**Ans:(b)**

58. A project whose cash flows are more than capital invested for rate of return then net present value will be------  
(a) Positive  
(b) Independent  
(c) Negative  
(d) Zero  
**Ans:(a)**

59. In mutually exclusive projects, project which is selected for comparison with others must have –  
(A) Higher net present value  
(B) Lower net present value  
(C) Zero net present value  
(D) All of the above  
Answer:  
(A) Higher net present value

60. Cash inflows are revenues of project and are represented by –  
(A) Hurdle number  
(B) Relative number  
(C) Negative numbers  
(D) Positive numbers  
Answer:  
(D) Positive numbers

61. The process of planning expenditures that will influence the operation of a firm over a number of years is called –  
(A) Investment  
(B) Capital budgeting  
(C) Net present valuation  
(D) Dividend valuation  
Answer:  
(B) Capital budgeting

62. Which of the following is an example of a capital investment project?  
(A) Replacement of worn-out equipment  
(B) Expansion of production facilities  
(C) Development of employee training programs  
(D) All of the above are examples of capital investment projects.  
Answer:  
(D) All of the above are examples of capital investment projects.

63. The beta coefficient is associated with –  
(A) Capital asset pricing model  
(B) Dividend valuation model  
(C) Risk-free rate plus premium model  
(D) Tax-adjusted cost of debt  
Answer:  
(A) Capital asset pricing model

64. The term mutually exclusive investments mean:  
(A) Choose only the best investments  
(B) Selection of one investment pre-eludes the selection of an alternative  
(C) The elite investment opportunities will get chosen.  
(D) There are no investment options available.  
Answer:  
(B) Selection of one investment pre-eludes the selection of an alternative

65. Which method provides more confidence, the payback method or the net present value method?  
(A) Payback because it provides a good timetable.  
(B) Payback because it tells you when you break even.  
(C) Net present value because it considers all inflows and outflows and the time value of money.  
(D) Net present value because it does not need to use cost of capital.  
Answer:  
(C) Net present value because it considers all inflows and outflows and the time value of money.

66. Capital budgeting is the process of identifying analyzing and selecting investments project whose returns are expected to extend beyond –  
**(A) 3 years**  
(B) 2 years  
(C) 1 year  
(D) Months

**UNIT-V**

**Value based management**

1.Value based management is a – approach.

(a) Economic

(b) Managerial

(c) Scientific and

(d) Political

Answer:  
 b) Managerial

2. The primary purpose of value Based Management is ---

(a) increase EPS

(b) long term shareholder wealth maximisation

(c) value of a firm

(d) maximise profit.

Answer:  
 (b) long term shareholder wealth maximisation

3. In Maracon model of value based management , a firm’s value is measured by ---

(a)the ratio of its market value to the book value.

(b ) the ratio of its book value to the market value.

(c)the ratio of EPS to the no. of shares.

(d) All the above,

Answer:

1. the ratio of its market value to the book value.

4. The value of the firm under Maracon model is measured by ----.

(a) the ratio of its market value to its book value

(b) return on equity.

(c) growth rate.

(d) all the above.

Answer: (a)

5. In Maracon approach to create a value a firm should have --- spread between return on equity, cost of equity, and a high growth rate,

(a) positive

(b ) negative

(c) zero

(d) none of the above

Answer:

1. positive

6. According to Maracon model the value of the firm is affected by ---factors.

(a) 2

(b) 1

(c) 4

(d) 5

Answer:

1. 4

7. Mckinsey model of value based management is based on the –principle.

(a) discounted cash flow

(b) NPV

(c) payback period

(d) IRR

Answer:

1. discounted cash flow

8. Mckinsey model of value based managementis to ---

(a) to maximise the value of a firm

(b) to maximise the profit

(c) to minimise the profit

(d) to maximise EPS.

Answer:

1. to maximise the value of a firm

9. Mckinsey model of value based management is also termed as – frame work.

(a) 7-S model (b) 5-S model

(c) 4-S model (d) 3-S model

Answer: A) 7-S model

10. . Mckinsey model of value based management is the concept used as a measure of – of the performance of a firm.

(a) quality

(b) quantity

(c) both (A) & (B)

(d)none of the above

Answer:

1. quality

11. The three hard factors in Mckinsey model of value based management are Strategy, Structure and ---.

(A) Style (b) Shared values

(c) Skills (D) System

Answer:

(D) System

12. The soft factors of Mckinsey model includes style, shared values, staff and---

(A) Skills (b) System

(c) Style (d) Strategy

Answer: A) Skills

13. According to Alcar model of value based management there are – value drivers that affect a firm’s value.

(A) 5 (B) 4 (C) 3 (D) 7

Answer: B) 4

14.—is a measure of a business enterprise’s economic performance.

(a) EVA (b) MVA

(c) Book value (d) none of the above

Answer: (a)EVA

15. EVA is equal to –

(a) NOPAT+(Cost of capital x Capital )

(b) NOPAT-(Cost of capital x Capital )

(c) NOPAT+Cost of capital

(d) Cost of capital x Capital

Answer:b

16. Market value added =

(a)NOPAT (b) Economic profit

(c) Market value of Equity – book value of debt

(d) Market value of equity – market value of debt

Answer:c

17. Shareholders wealth in a firm is represented by \_\_\_\_.

(a) number of people employed in the firm

(b) book value of firm’s assets – book value of its liabilities

(c) amount of salary paid to the employees

(d) market price per share of a firm’s common stock.

Answer(d)

18. In Alcar’s approach of value based management, the value of equity is —

(a) deducting the market value of the firm’s debt from its present value

(b) adding the market value of firm’s debt with the present value

(c) deducting the market value of firm’s debt from its book value

(d) None of the above

Answer (a)

19. In Maracon’s approach of value based management, the shareholder’s wealth creation is equal to —

(a) market value + book value of a firm’s equity

(b)market value – book value of a firm’s equity

(c) book value – market value of a firm’s equity

(d) none of these

Answer (b)

20. If you have net profit of Rs.1,00,000, invested capital of Rs.50,000 and WACC of 10%m what is EVA?

(A) Rs.50,000 (b) Rs.40,000

(c) Rs.10,000 (d) Rs.95,000

Answer:

1. Rs.95,000

21. EVA is based on the—

(a) profit

(b) residual wealth

(c) gross wealth

(d) None of these

Answer:

1. residual wealth

22. A \_\_\_\_\_ describes the categories of activities within and around an organisation which together create a product or service.

(a) value chain (b) strategic capability

(c) Merger (d) Alliance

Answer: A) value chain

23. Directional policy matrix is also known as—

(a) GE-Mckinsey matrix (b) BCG matrix

(c) Growth share matrix (d) portfolio matrix

Answer:A) GE-Mckinsey matrix

24. In Mckinsey model –dimension takes into consideration the external environment.

(a) System (b) Strategy (c) Structure (d) Style

Answer: B) Strategy

25. The five dimension which focus on internal organisation of the company are structure, system, style, staff and ---

(a) Skill (b) Strategy

(c) Method (d) None of these

Answer: (a) Skill

26. --- is based on the concept that a successful firm should earn at least its cost of capital.

(a) MVA (b) EVA (C) both of these

(d) None of these

Answer: B) EVA

27. Which dimension is called as ’Super ordinate goals’?

(a) Style (b) Skill

(c) Strategy (d) Shared values

Answer:

1. Shared values

28. Shareholder value is equal to –

(a) MV of the firm –MV of the debt

(b) MV of the debt + MV of the firm

(c) only MV of the firm

(d) only MV of the debt.

Answer:

(a) MV of the firm –MV of the debt

29.The word Tactics is most likely to be associated with –

(a) Business strategy (b) Corporate strategy

(c) Operational strategy (d) Short term strategy

Answer:B) Corporate strategy

30. The companies that help to set bench marks are classified as –

(a) Competitive companies

(b) Bench mark companies

(c) Analytical companies

(d) Return companies

Answer:B) Bench mark companies

31. Manangement consulting firm ‘Stern value Management’ devised a measure called—

(a) EVA

(B) MVA

(c) Both of theses

(d) None of these/

32. The metrics based on non -financial information are known as –

(a) Quantitative factors

(b) Qualitative factors

(c) Stake holders

(d) Stock holders.

Answer: (b) Qualitative factors

33. The critical 7S model was developed and created by reputed consulting firm—

(a) Mckinsey (b) Bain & co.

(c) A.T. Kearney (d) Accenture.

Answer:

1. Mckinsey

34. A – top management team may infuse desired changes for spearheading successful strategic change.

(a) Heterogeneous (b) Homogeneous

(c) Aggressive (d) Motivated.

Answer: B) Homogeneous

35. Which of the following is not a part of the critical 7S model?

(a) Strategy (b) Style (c) Settings (d) Staff

Answer: (c) Settings

36. Change in the style of function of organisation, calls for significant modification in ---

(a) Organisation response

(b) Decision making

(c) Organisation culture & approach

(d) None of these

Answer:

(c) Organisation culture & approach

37. Under 7S framework, systems’ imply which of the following?

(a) Recruitment policy (b) IT up gradation

(c) Innovative work ethics

(d) Set of standardised procedures.

Answer:B) IT up gradation

39. Economic Value added indicates \_\_\_\_.

(a) Value added to economy

(b) financial performance based on residual wealth

(c) net profit (d) expected amount of dividend

Answer: b)

39. The three elements of value based management are \_\_\_\_.

(a) creating, managing and measuring values

(b) creating, managing and maintaining values

© managing, measuring and maintaining values

(d) none of these

Answer: a)

40. In Maracon approach management creates value if –

(a) M>B (B) B > M

(C) B = M (d) None of these.

Answer: A) M>B

41. In Maracon approach, management decimates value if,--

(a) M<B (B) B < M

(C) B = M (d) None of these

Answer: A) M<B

42. Under Maracon approach Market value is calculated as –

(a) r – g (b) k – g (c) r + g (d) None of these.

Answer: (a) r – g

43. . Under Maracon approach BV of equity is equal to –

(a) r – g (b) k – g (c) r + g

(d) None of these. Answer: (b) k – g

44. Key elements of firm’s strategy are ---

(a) participation strategy (b) competitive strategy

(c) Both of theses. (d) None of these

Answer: C) Both of these.

45. Value growth duration refers to the time period for which a strategy is expected to result in a rate higher than –

(a) Average growth rate (b) Normal growth rate

(c) Expected rate (d) None of these.

Answer:A) Average growth rate

46. Under Alcar approach the value of the strategy is =

(a) post-strategy – pre-strategy

(b) pre-strategy- post-strategy

(c) either (a) or(b)

(d) none of these.

Answer: (a) post-strategy – pre-strategy

47. In Maracon approach to deliver shareholders value four comprehensive tools used are organising, analysing, managing, and –

(a) planning (b) controlling

(c) budgting (d) strategising.

Answer: B) strategising.

48. In Maracon approach BV of equity measures—

(a) capital (b) productivity

(c) both of these (d) none of these.

Answer: (a) capital

49. Under Maracon model M/B =

(a) (k - g)(r – g) (b) (r - g)(k- g)

(c) (k - g) + (r – g) (d) None of these

Answer: (a) (k - g)(r – g)

50. In Alcar approach of VBM, value of the firm is –

(a) Implied value of the equity

(b) Explicit value (c) Both of these

(d) none of these

Answer: (a) Implied value of the equity

51. Implied value of the firm is arrived by –

(a) deducting the value of the current debt from the estimated value of the firm

(b) deducting the estimated value of he firm from the current debt of the firm

(c) adding the value of the current debt from the estimated value of the firm

(d) none of these.

Answer:

(a) deducting the value of the current debt from the estimated value of the firm

52.Which is used as an incentive plan Metric?

(a) EVA (B)MVA

(c) both of these (d) none of these

Answer: A) EVA

53. Which is the performance measure of value creation?

(a) EVA (B) MVA (c) both of these

(d) none of these

Answer: A) EVA

54. (i) Capital in EVA is the total capital comprised of equity and debt.

(ii) Capital in EVA is the total capital comprised of equity alone. Which of the statements is true?

1. Statement i is true
2. Statement ii is true
3. Both statements are true
4. None of these.

Answer:

1. Statement i is true

55. EVA provides a measure of –

(a) How much value is added by the economy.

(b) How much value is added by operations.

(c) How much a business affects the economy.

(d) How much wealth a company is creating compared to its cost of capital.

Answer:

(d) How much wealth a company is creating compared to its cost of capital

56. Value based management includes \_\_\_ indicators.

(a) Economic Value added

(b) Market value added

(c) cash value aded

(d) all the above.

Answer: (d)

57. NOPAT stands for—

(a) Net Organisation profit after Tax.

(b) Net Operating profit after Tax

(c) Net Operation profit after Tax

(d) None of the above

Answer:

(b) Net Operating profit after Tax

58. The concept of EVA has been developed by –

(a) Alfred Marshal

(b) Benjamin Fleming

(c) Stern Steward

(d) Charles H.Dow

Answer:

(c)Stern Steward

59. MVA stands for –

(a) Maximum value added (b) Market value added

(c)Minimum value added (d) Most value added

Answer: (b) Market value added

60.Which is not the performance measure of value creation?

(a) EVA (B) MVA (c) both of these (d) none of these

Answer: (a) MVA