Q NO	QUESTION (2 marks per question)	OPTIONS				Correct Answer
		A	B	C	D	
1	Which of these is not a type of Financial Assets?	Cheque	Call Money	Treasury Bill	Commercial Paper	A
2	Which of these is not a fundamental objective of Indian Financial System?	To give time value to money	Offer Services that reduce risk of loss	Issuing Bank Notes	Provide a payment System	C
3	When a loan is granted for only one day, it is called _________?	Immediate Bill	Treasury Bill	Call Money	Commercial Bill	C
4	A well-developed _____________ provides adequate mechanism for risk-pooling and Risk-sharing for both households and business firms.	Economic Environment	Financial Environment	Financial System	Financial Market	C
5	The _____________ through its conduct of monetary policy influences the different segments of the Financial Market in varying degrees.	IDBI	Securities and Exchange Board of India	State Bank of India	Reserve Bank of India	D
6	_________________are a long-term promissory notes with maturities ranging from 5 to 30 years.	Notes	Shares	Bonds	Commercial Papers	C
7	__________________is created only when the investment of an economic unit in real assets exceeds its savings, and it finances this excess by borrowing or issuing equity securities.	Tangible Asset	Financial Asset	Underwriters	Commercial Paper	B
8	Which of the following is not the Financial Institutions in Indian Financial System?	Commercial Banks	Cooperative Banks	Money Markets	Organized Financial Institutes	C
9	Which of the following is not the Financial Services in Indian Financial System?	Local Bankers	Investment Banking	Credit Rating	Asset Management	A
10	__________________is issue of shares to the existing shareholders of the company through a Letter of Offer made in first instance to the existing shareholders on pro data basis	Public Issue of shares	Right Issue of shares	Private Placement of Shares	Issue of Debentures	B
11	The long-run objective of financial management is to	Maximize earnings per share	Maximize the value of the firm's common stock	Maximize return on investment	Maximize market share	C
12	The focal point of financial management in a firm is	The number and types of products or services provided by the firm	The minimization of the amount of taxes paid by the firm	The creation of value for shareholders	The profits earned by the firm in Rs	B
13	The regulator for Primary and secondary market is	IRDA	SEBI	RBI	CRISIL	B
14	The financial market means	Capital Market	Money Market	A & b	None of above	C
15	Which of the following does financial services industry consist of? I. Telecommunication II. Insurance III. Fund Management IV. Trusts	I and II	III and IV	I, II and III	II, III and IV	D
16	The market price of a share of common stock is determined by	The board of directors of the firm	The stock exchange on which the stock is listed	The president of the company	Individuals buying and selling the stock	D
17	________________Is the price at which the bond is traded in the stock exchange	Redemption value	Face value	Market value	Maturity value	C
18	_______________ and _______________ are the two versions of goals of the financial management of the firm.	Profit maximisation, Wealth maximization	Value maximisation, Wealth maximisation	Sales maximisation, Profit maximization	Production maximisation, Sales maximisation	A
19	The basic purpose of financial market is	Lower the yield on bonds	Increase price of common stocks	Allocate savings effectively	Investor education	C
20	The short term financial instruments traded in money market is commonly called	Bonds	Shares	Notes	Commercial Papers	D
21	Finance Function comprises	Expenditure of funds only	Procurement of finance only	Safe custody of funds only	Procurement & effective use of funds	D
22	Financial management mainly focuses on	Arrangement of funds	Efficient management of every business	All elements of acquiring and using means of financial resources for financial activities	Brand dimension	C
23	Which of the following is a not money market security	National Savings Certificates	Treasury bill	Certificate of deposit	Commercial paper	A
24	Which of the following would be considered as risk free investment?	Gold	equity share	corporate bond	treasury bill	D
25	Treasury bills are traded in	money market	capital market	regulated market	government market	A
26	Which of the following is not considered as capital market security?	equity share	preferential share	corporate bond	6-month treasury bill	D
27	The most important function of a financial market is	to provide employment for brokers and agents	to provide a market for shares	to provide information about shares	to facilitate the flow of funds between lenders and borrowers	D
28	Which of the following statements is not true with regard to Commercial paper?	It is sold at a discount and redeemed at par	It usually has a maturity period of 15 days to one year	Is a long-term unsecured promissory note with a fixed maturity period	Companies use this instrument for bridge financing	C
29	Which of the following statements is not true with regard to Call money? Select correct one	It is short-term finance repayable on demand	There is a direct relationship between call rates and other short-term money market instruments.	Its maturity period ranges from one day to fifteen days	It is used for inter-bank transactions	B
30	Which of the following statements is not true with regard to stock exchange	By providing a ready market, it extends liquidity to the securities	It provides a platform for buying and selling of old securities	It curbs the marketability of the securities	It provides a platform for buying and selling of new securities	C
31	Examples of financial assets are	Human resources	Land and building	Creditors	Loan	B
32	Certificate of deposit, or bond is example of	Financial instrument	Financial institution	Financial market	Financial Intermediary	A
33	Short time liabilities of organizations are	Inventories, land building	Accounts payable, Notes payable	Long term loan	Cash and bank balance	B
34	A debt soured of finance is defined as	Amount to be paid with no maturity period with dividend	Amount to be paid with no maturity period with fixed rate of interest	Amount to be paid with maturity period with fixed rate of interest	Amount to be paid with maturity period with fixed rate of dividend	C
35	New securities and outstanding securities are traded in	The secondary market and the primary market respectively	The primary market and the secondary market respectively	The primary market	The secondary market	B
36	Every financial market has the following characteristic	It determines the level of interest rates	It allows common stock to be traded.	It allows loans to be made	It channels funds from lenders-savers to borrowers-spenders.	D

37	Which of the following is security?	Repo Rate	Reverse Repo Rate	A Treasury bill	Interest Rate	C
38	An important financial institution that assists in the initial sale of securities in the primary market is the	Investment bank.	commercial bank	stock exchange	brokerage house	A
39	Which of the following are long-term financial instruments? \	A negotiable certificate of deposit	A banker’s acceptance	A U.S. Treasury bond	A U.S. Treasury bill	C
40	Intermediaries who link buyers and sellers by buying and selling securities at stated prices are called	investment bankers	traders	brokers	dealers	D
41	A corporation acquires new funds only when its securities are sold	in the secondary market by an investment bank	in the primary market by an investment bank	in the secondary market by a stock exchange broker	in the secondary market by a commercial bank	B
42	Which of the following statements about financial markets and securities are false?	Few common stocks are traded over-the-counter, although the over-the-counter markets have grown in recent years	A corporation acquires new funds only when its securities are sold in the primary market	Capital market securities are usually more widely traded than longer term securities and so tend to be more liquid	Financial Markets and securities are not standardised and not regulated	B
43	Exchange Traded Funds are part of	Private Placement	Secondary Market	Domestic Market	Derivatives Market	D
44	Bonds that are sold in a foreign country and are denominated in that country’s currency are known as	foreign bonds	Eurobonds	Eurocurrencies	Eurodollars	A
45	Which of the following is NOT an example of Money Market?	Call Money Market	Stock Market	Certificate of Deposit Market	Treasury Bills Market	B
46	Which one of the following is NOT part of organised Financial Institutions?	Banks	Non-Banking Financial Institutions	Mutual fund companies	Money lenders	D
47	Which of the following are NOT part of the financial markets?	Capital Markets	Money Market	Debt Markets	Chit Funds	D
48	Which of the following is NOT a regulatory body in Indian Financial System?	Reserve bank of India (RBI)	Securities Exchange Board of India (SEBI)	State Bank of India	Insurance Regulatory and Development Authority (IRDA)	C
49	Which one of the following is considered to Money Market Financial Instrument?	Preference Shares	Treasury Bills	Equity Shares	Insurance	B
50	Which of the following is not a primary function of a Bank?	Granting Loan	Collecting cheques and drafts from customers	Facilitating import of goods	Accepting deposits	C
51	The Primary Securities are	Equity Shares	Mutual Fund Units	Time Deposits	Insurance policies	A
52	Which one of the following is part of Capital Market?	Call Money	Commercial Papers	Derivatives	Certificate of Deposit	C
53	Which of these is not a financial asset?	Bonds	Lease Obligation	Shares	Patents	D
54	Which one of the following is the regulatory body for Banks in India	Reserve Bank of India	State Bank of India	National Bank for Agriculture and Rural Development	Central Bank of India	A

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1	Return consists of :	Yield	Capital Gain	Capital Gain + Yield	Dividend	C
2	Ali purchased a stock for Rs. 6,000. At the end of the year the stock is worth Rs. 7,500. Ali was paid dividends of Rs. 260. Calculate the total return received by Ali.	4.30%	29.30%	25%	10%	B
3	The risk associated with the use of debt financing known. is:	Liquidity risk	Foreign Exchange Risk	Market risk	Financial risk	C
4	The Coefficient of Variation is:	The risk associated with each unit of money invested	The measure of absolute risk	The risk associated with each unit of money + the measure of absolute risk	Volatality with respect to return	D
5	A good portfolio consists of financial assets	that are strongly positively correlated	that are strongly negatively correlated	that are not strongly positively correlated	That have no co relation at all	C
6	Diversification is basically used as:	A tool to spread the risk across the number of assets or investments.	To tool to increase returns	A tool to save on taxes	Tax shelter	A
7	A change in the world energy situation is an example of	Unsystematic risk	systematic risk	Maket Risk	finance risk	B
8	With a well-diversified portfolio, an investor can reduce	Unsystematic risk	systematic risk	Maket Risk	finance risk	A
9	Beta Represents the:	Unsystematic risk	Systemic Risk	Systemic as well as unsystemic risks	Foreign Exchange Risk	B
10	You bought a share for Rs. 100 and sold it for Rs. 120 after one year. You received share dividend Rs.10 during the holding period. What was the rate of holding period return?	10%	20%	30%	50%	C
11	A statistical measure of the degree to which two variables (e.g., securities' returns) move together.	Certainty equivalent	Covariance	Variance	Coefficient of variation	B
12	How to calculate the total portfolio risk?	equal to systematic risk plus diversifiable risk	equal to avoidable risk plus diversifiable risk	equal to systematic risk plus unavoidable risk	equal to systematic risk plus non diversifiable risk	A
13	Which of the following portfolio statistics statements is correct?	The square root of a portfolio's standard deviation of return equals its coefficient of variation.	The square root of a portfolio's standard deviation of return equals its variance.	portfolio's expected return is a simple weighted average of expected returns of the individual securities comprising the portfolio.	A portfolio's standard deviation of return is a simple weighted average of individual security return standard deviations.	C
14	How you can turn a portfolio having two risky securities into risk less if	The securities are completely negatively correlated	The securities are completely positively correlated	If the correlation ranges between zero and one	If the correlation ranges between zero and two	A
15	Assume a two-stock portfolio with ₹ 50,000 in X Inds. with expected return 17.4% and ₹ 50,000 in Y Inds. with expected return 1.7%. Calculate weighted average return of portfolio	0.096	0.086	0.106	0.09	A
16	The value of money to be received in the future is _______the value of the same amount of money in hand today?	same or lower than	Higher than	Lower Than	The same as	B
17	In 4 years you are to receive ₹6,000. If the interest rate were to suddenly increase, the present value of that future amount to you would	Rise	Remain Unchanged	Fall	cannot be determined without more information	C
18	If you deposited ₹ 55,650 in a bank, which was paying a 15% rate if interest on a 10 year time deposit, How much would the deposit grow at the end of 10 years.	₹ 245,160.90	₹ 235,159.60	₹ 225,159.90	₹ 215,159.60	C
19	How many years a given sum of money must earn at a given compound annual interest rate in order to double that initial amount is given by the (Roughly estimate) Rule _____________	Rule of 415	Rule of 72	Rule of 78	Rule of 144	B

20	Future value interest factor takes	compound rate	deflation rate	discounting rate	inflation rate	A
21	Present value takes	deflation rate	compounding rate	discounting rate	inflation rate	C
22	Time value of money indicates that	it depends upon rate of interest	A unit of money obtained today is worth more than a unit of money obtained in future	A unit of money obtained today is worth less than a unit of money obtained in future	There is no difference in the value of money obtained today and tomorrow	A
23	Relationship between annual nominal rate of interest and annual effective rate of interest, if frequency of compounding is greater than one	Effective rate < Nominal rate	Effective rate = Nominal rate	Effective rate > Nominal rate	can't be determined	C
24	1. Given an investment of Rs. 10,000 for a period of one year, it is better to invest in a scheme that pays:	12% interest compounded daily	12% interest compounded monthly	12% interest compounded annually	12% interest compounded quarterly	A
25	To find the present value of a sum of Rs. 10,000 to be received at the end of each year for the next 5 years at 10% rate, we use:	Present value of annuity table	. Present value of a single cash flow table	Future value of annuity table	Future value of a single cash flow table	A
26	1. A statistical measure of the degree to which two variables (e.g., securities' returns) move together	variance	coefficient of variation	. certainty equivalent	covariance	D
27	1. If the nominal rate of interest is 10% per annum and there is quarterly compounding, the effective rate of interest will be:	a. 40%	0.1038	0.12	0.025	B
28	You bought Cisco stock for Rs 50 a share. Cisco's stock rose to Rs 100 the next year. The following year, Cisco's stock dropped back to Rs 50 a share. What was your arithmetic return in % over the last two years?	0.2	0.25	0.5	0.205	B
29	A deposit of Rs 2,000 per year at the beginning of the year in a bank for 5 years with interest rate of 10 percent pa compounded annually. What will be the value of this series of deposits at the end of 5 years in Rs?	13431	13000	14000	12341	A
30	Diversifiable risk is caused by	Success of marketing programs, winning or losing a major contract	War, inflation	Recessions	None of abvove	A
31	The rate of return on an asset in general is	Ratio of income to investment	Ratio of investment to income	Ratio of investment to cost	All of above	A
32	Risk is commonly measured by	.Time to recover investment	Average value of returns	Variance or the standard deviation	All of above	C
33	Portfolio means	Single stock(investment)	Mix of similar stock (investment)	Mix of diversified investment (stock)		C
34	Deposit Rs.1,000 annually in a bank for 5 years with compound interest rate of 10 percent pa. What will be the value of this series of deposits (an annuity) at the end of 5 years?	6000	6105	6205	None of above	B
35	Receiving Rs. 1,000 annually for 3 years, each receipt occurring at the end of the year. What is the present value if the discount rate is 10 percent?	2480	2400	2486	None of above	C
36	An annuity is a stream of	Variable cash flow (payment or receipt) occuring at regular intervals	Constant cash flow (payment or receipt) occuring at irregular intervals	Constant cash flow (payment or receipt) occuring at regular intervals	Variable cash flow (payment or receipt) occuring at irregular intervals	C
37	Effective rate of interest is more than stated interest rate when compounding is done	TRUE	FALSE	Cant say	All of above	A
38	If A is annuity amount, r is rate of interest, and n is period, The present value of an annuity is given by	A [{ 1 - (1/1 + r)n)/ r]	A [(1 +r)n - l] / r	A [{ 1 - (1/1 + r)n)/ r]/r	None of above	A

39	A borrower offers 16 per cent nominal rate of interest with quarterly compounding. What is the effective rate of interest ?	16	17	18	20	B
40	Calculate the return for a stock that earned a Rs. 27 profit per share based on a sale price of Rs104 per share.	2.5	1	0.0319	0.3506	D
41	A broadly consistent definition of 'risk' is that it is...	The definitive probability of the price of stocks decreasing.	The likelihood or value of losing money from an investment.	The date at which the price of a stock is expected to be equal to zero.	The amount of time it takes for the price of a stock to decrease by 50% or more.	B
42	The process of determining present values of a series of future cash flows is called	Compounding	Discounting	Capital recovery	Perpetuity	B
43	An individual's time preference for money can be attributed to	Preference for future consumption	Delayed investment opportunity	Certainty	Risk	D
44	A series of fixed receipts or payments starting at the beginning of each period for a specified number of period is called	Hire purchase	Perpetuity	Lease	Annuity due	D
45	In multi –period compounding, the effective interest rate will be	Will be equal to nominal interest rate	Will be more than nominal interest rate	Will be less than nominal interest rate	Could be less than or equal to nominal interest rate	B
46	The process of calculating future values of cash flows is called	Discounting	Compounding	Capital recovery	Perpetuity	A
47	A bank pays interest at 8% per annum compounded half yearly on its cumulative deposits. What is the effective interest rate?	0.0824	0.0322	0.0816	0.0918	C
48	The maturity value of a deposit in one year is Rs.80,000 and in two years is Rs.100,000. What interest rate per annum is earned on that deposit?	0.12	0.15	0.2	0.25	D
49	In order to find out the present value of a sum of Rs. 10,000 to be received at the end of each year for the next 5 years at 10% rate, we use:	Future value formula	Present value formula	Present value of annuity formula	Future value of annuity formula	C
50	What is the present value of a Rs. 1,000 ordinary annuity that earns 8% annually for a period of 10 years?	Rs. 6500	Rs. 6710	Rs. 6750	Rs. 6170	B
51	Interest rate which is not reinvested but is earned is classified as	Simple Interest	Invested Interest	Earned Interest	Stated Interest	A
52	Generally speaking, all stocks are impacted by which 2 types of risk?	Inflation and deflation only.	Recessions and depressions only.	Firm specific risk and market risk only	Idiosyncratic risk and diversifiable risk only.	C
53	Portfolio returns are a function of:	The return you earn from each individual asset.	The amount / proportion invested in each asset.	The return from each asset as well as the amount / proportion invested in each asset.	The return from each individual asset as well as its total risk.	C
54	For any given portfolio, regardless of the number of securities in the portfolio, the sum of the weights must always equate to:	The maximum expected return of all assets	The total dollar amount invested.	Zero.	One.	D

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1	What is the meaning of "financing" in the financial market?	Advising an organization to raise charity funds	Investing in the securities market	Sourcing funds	Converting the assets into cash.	C
2	The capital markets consist of the primary market and secondary market. Which of the following statements is TRUE regarding the differences between the two markets?	New issues are distributed to investors in the primary market while existing securities are traded in the secondary market.	Existing securities are traded in the primary market while new issues are distributed to investors in the secondary market.	New issues are traded in the primary market while existing securities are distributed in the secondary market	Existing securities are distributed to investors in the primary market while new issues are traded in the secondary market..	A
3	The value at some future time of a present amount of money or a series of payments, evaluated at a given interest rate is called	Face value	Market value	Maturity value	Future Value	D
4	The current value of a future amount of money or a series of payments, evaluated at a given rate of interest is called	Face value	Present value	Maturity value	Future Value	B
5	Company's capital normally does not comprises of :	Equity shares	Preference Shares	Debentures	Dividend	D
6	Which of the following statements are false? A) When all the figures in a balance sheet are stated as percentage of the total, it is termed as horizontal analysis. B) When financial statements of several years are analyzed, it is termed as vertical analysis. C) Vertical Analysis is also termed as dynamic analysis.	Both A and B	Both A and C	Both B and C	A, B , C	B
7	Comparison of financial statements highlights the trend of the _________ of the business.	Financial position only	Performance only	Profitability only	Financial position, performance, and Profitability	D
8	Which of the following statements are true? A) External analysis depends entirely on issued financial statements. B) Interpretation and analysis both are different. C) Financial analysis covers interpretation	Both A and B	Both A and C	Both B and C	A, B, C	D
9	Which of the following techniques, tools or methods are not used for analysis and interpretation of financial statements?	Ratio Analysis	Average Analysis	Trend Analysis	break even analysis	D
10	Current ratio is stated as a crude ratio because	It measures only the quantity of current assets	It measures only the quality of current assets	Both a and b	Offerings dimension	A
11	Which is not the main areas of concern for Corporate finance	Capital Budgeting	Capital Structure	Financial Market Reforms	Working Capital Management	C
12	Which of the following is not one of the three fundamental methods of firm valuation?	Discounted Cash flow	Income or earnings - where the firm is valued on some multiple of accounting income or earnings.	Balance sheet - where the firm is valued in terms of its assets.	Market Share	D
13	Which of the following is not a fundamental concept in Corporate Finance?	The relationship between risk and return.	Double-entry book-keeping.	Net present value.	The business cycle.	B
14	What is the stakeholder view of the firm?	The firm must honor its wider social obligations as well as making money.	The only obligation on the firm is to maximize profit.	The firm exists to maximize return.	Shareholders should eventually be returned their stake in the firm.	A
15	How is the Interest Coverage ratio calculated?	(Profit before interest and taxes + Depreciation) / Interest	Earnings per share/market capitalization	(Profit before interest and taxes)/ Interest	Interest / (Profit before interest and taxes)	C
16	How is the Current ratio calculated?	Quick assets/ Current liabilities	Current Liabilities/ Current Assets	Current liabilities/ Quick assets	Current Assets/Current Liabilities	D
17	On balance sheet, account payable, notes payables, and accruals are listed under which category?	Accumulated Liabilities	Noncurrent Liabilities	Current Liabilities	Accrued Liabilities	C
18	If a company's earnings per share is Rs 15 and it has a share price of Rs 450, what is the P/E ratio?	20	30	40	50	B
19	In cash flows, when a firm invests in fixed assets and short-term financial investments results in	Increased Equity	Increased Liabilities	Decreased Cash	Increased Cash	C
20	Quick ratio is 2.3:1, current ratio is 3.5:1 and current liabilities are Rs 54,000. Determine value of stock	Rs 60000	Rs 64800	Rs 68000	Rs 54000	B

21	The relationship between two financial variables can be expressed in	Percentage	Either ratio or percentage	Rate or time	Pure ratio	B
22	Debt-equity ratio is a sub-part of	Activity ratio	Short-term solvency ratio	Long-term solvency ratio	Debtors turnover ratio	C
23	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.	7	8	9	6	**B**
24	Which of the following statements are true about Ratio-analysis? 1)Ratio-analysis is useful in financial analysis. 2.Ratio-analysis is helpful in communication and coordination 3.Ratio-analysis is not helpful in identifying weak spots of the business. Ratio-analysis is helpful in financial planning and forecasting.	1, 2 , 3, 4	1, 2 and 3	1, 3 and 4	1, 2 and 4	**D**
25	Which of the following are limitations of ratio-analysis? A) Ratio-analysis may result in false results if variations in price levels are not considered. B) Ratio-analysis ignores qualitative factors C) Ratio-analysis ignores quantitative factors D) Ratio-analysis is historical analysis.	a. A, B , C, D	A, C and D	A, B and C	A, B and D	**D**
26	Liquid ratio is also known as A) Quick ratio B) Acid test ratio C) Working capital ratio D) Stock turnover ratio	A & C	A & B	B & C	C & D	**B**
27	Determine Working capital turnover ratio if, Current assets is Rs 1,50,000, current liabilities is Rs 1,00,000 and Cost of goods sold is Rs 3,00,000.	**3 times**	**6 times**	**0.1667 times**	**5 times**	**B**
28	If a firm has a DOL of 5 at Q units, this tells us that	If sales rise by 1%, EBIT will rise by 1%	If sales rise by 1%, EBIT will rise by 5%	If sales rise by 5%, EBIT will fall by 25%	If sales rise by 5%, EBIT will rise by 5%	**B**
29	Suppose a firm has total sales of Rs 5,00,00 out of which the credit sales are Rs 2,50,000. The opening balance of account receivables is Rs 3,00,000 and the closing balance at the end of financial year is Rs 2,00,000. The debtors turnover ratio will be:	10	**1.5**	**1**	**0.5**	**C**
30	If sales is Rs 10,00,000, sales returns is Rs 50,000, Profit Before Tax is Rs 2,00,000, Income tax is 40%, then net profit ratio is	**12.63%**	**15%**	**12%**	**11.50%**	**A**
31	When the concept of ratio is defined in respected to the items shown in the financial statements, it is termed as	**Accounting ratio**	Financial ratio	Costing ratio	**leverage Ratio**	**A**
32	Liquidity ratios are expressed in	**Pure ratio form**	Percentage	Rate or time	**Gross Profit Ratio**	**A**
33	General Profitability ratios are based on	Investments	**Sales**	Operating Profit	Cost of goods sold	**B**
34	Determine Working capital turnover ratio if, Current assets is Rs 1,50,000, current liabilities is Rs 1,00,000 and Cost of goods sold is Rs 3,00,000.	**5 TIMES**	**6 TIMES**	**3times**	**1.5 times**	**B**
35	What is the value of the firm usually based on	**The value of debt and equity.**	The value of equity.	The value of debt.	**The value of assets plus liabilities.**	**A**
36	Shareholders wealth increases with the increase in ___	EPS	Market value of the firm	**Dividend & market value of the firm**	Market price of the equity share	**C**
37	Unlisted company can be valued at	**Net asset Method**	Market value method	Salvage Value	Orignal book value	**A**
38	What does the price/earnings (PE) ratio measure?	**The multiple that the stock market places on a company's earnings**	The number of times that dividends paid are covered by profits	The return received by way of dividends as a percentage of current share price	The amount of profits available to ordinary shareholders	**A**
39	If a company has a share price of Rs100 and its earnings per share averaged Rs 2, what is its P/E ratio?	20	50	80	70	B
40	The long term assets that have no physical existence, but the rights that have value are known as	Current Assets	Tangible Assets	**Intangible Assets**	Fixed asset	**C**
41	The assets that can be converted into cash within a short period (i.e.1 year or less) are known as	**Current assets**	Fixed assets	Intangible assets	Investments	**A**

42	Patents, Copyrights and Trademarks are	**Current assets**	Fixed assets	Intangible assets	Investments	**C**
43	The debts, which are to be repaid within a short period (year or less) are known as	**Current liabilities**	Fixed liabilities	Contingent liabilities	Investments	**A**
44	Economic resources of a business that are expected to be of benefit in the future are referred to as:	Liabilities	Owner's equity	**Assets**	Drawings	**C**
45	The following is a statement showing the financial performance of the company as on a specific day	Trading account	Profit and Loss statements	Balance sheet	Cash book	
46	Following is a statement of revenues and expenses for a specific period of time	cost of goods sold	**Profit and loss statements**	Cash flow statement	Bank reconsilation statement	**B**
47	The reasons which don't need ratio analysis are:	To have valuable insights into a firm's performance	To have inter-firm comparisons	To facilitate the decision making by different stakeholders	**To decide whether to start the new project**	**D**
48	This ratio represents the ability of a company to meet its current liabilities:	**Liquidity ratios**	Activity ratios	Solvency ratios	Profitability ratios	**A**
49	Depreciation refers to______________.	**Reduction in value of fixed assets due to its usage**	Amount set aside for new assets	Cash set aside from profits	None of the above	**A**
50	Financial statements do not include	Balance sheet	Profit and loss account	Cash flow statement	Bank reconsilation statement	**D**
51	The balance sheet shows	The financial position (or condition) of the firm over a period of time	The financial position (or condition) of the firm at a given point of time	Revenue generated	Total sales in the specific year	**B**
52	Loans taken by organizations are	Assets	Liabilities	both assets and liabilities	Neither assets nor liabilities	**B**
53	Equity shareholders who are the owners of the firm recieves	Interest every year	Dividend	both interest and diviedend	neither interest nor dividend	**B**
54	Sundry debtors includes amount	Receivable from customer	Payable to vendors	Receivables from vendors	payble to customer	**C**
55	Gross profit is the difference between	Net sales and all expenses	Net sales and the cost of goods sold.	Net sales and selling expenses	cost of good sold	**B**
56	Liquidity refers to the ability of a firm	to meet its obligations in the long run.	to meet its obligations in the short run.	To pay amount to owners	to pay amount to the raw material vendors	**B**
57	Leverage ratios help in assessing the risk arising from the use of	Equity finance	Debt finance	both equity finance and debt finance	neither equity nor debt finance	**B**
58	Primary goal of corporate finance is	Profit maximization	Maximize the value of the firm	Employees and stakeholders benifit	Stakeholder benefit	**B**
59	Turnover ratio indicates	how efficiently the investments are employed by a firm	how efficiently the assets are employed by a firm.	how efficiently the assets are employed by a firm	how much dividend paid to stakeholder	**B**
60	What are the information financial statements have?	Financial statements provide the market price	Financial statements provide information on how the firm has performed in the pas and what is its current	Financial statements provide the no of shares in the share market.	Financial statements provide information about Firm's new projects.	**B**
61	What is the form of balance sheet?	Account form	Report form	Account form and Report form	**Account form or Report form**	**C**
62	Which is the following option fall in Assets category?	Investments	Provisions	Secured loans	Current liabilities	**A**
63	What is meant by liabilities?	It represents what the firm's investments.	It represents the firm's assets.	It represents what the firm owes others.	It represents the firms inventories.	**C**

64	Which is the following option does not fall in liability category?	Investments	Provisions	Secured loans	Current liabilities	**A**
65	What is the Share Capital?	Share Premium	Capital subsidy	Equity Capital and Preference Capital	Capital Reserves	**C**
66	PBIT stands for ___________	Profit before Income taxes	Profit before interest and taxes	Payment before Income taxes	Paid Interest because of Income tax.	**B**
67	Which is the popular method of calculation depreciation?	Units of Production Depreciation	Straight line Depreciation	Sum of the Year's Depreciation	Declining balance depreciation	**B**
68	What is the period of Financial statement in india?	1st January to 31st December in the same year	1st July in the first year to 30th June in the next year	1st April in the first year to 31st March in the next year	Any period during the same year	**C**
69	Which is the following option fall under Intangible Asset?	Goodwill	Land	Machinery	Computer	**A**
70	Working Capital is also known as ___________	Cash	Current assets	Invested Capital	Assets	**B**
71	Which financial statements include the flow of cash during the financial period?	Cash flow statements	Balance Sheet	Income statements	Statement of changes in equity	**A**
72	Which are the following options does not generate cash?	Issue of security	Redeem security	Raises a bank loan	Payment from firms customers	**B**
73	NOPAT stands for	Net Operating Profit after Taxes	No operation on Project after Termination	No Operating Profit after Taxes	No Operating Profit after Termination	**A**
74	What does liquidity refer?	The ability of a firm to meet its obligation in one week.	The ability of a firm to meet its obligation in one month.	The ability of a firm to meet its obligation in one year.	The ability of a firm to meet its obligation in ten Years.	**C**
75	Acid test ratio is also known as __________	Current ratio	Net profit ratio	Net sales ratio	Quick ratio	**D**
76	What is the riskier source of finance?	Equity capital	Debt capital	Term loan	Tangible asset redemption	**B**
77	What is the definition of Gross Profit Margin Ratio?	difference of net sales and cost of goods sold , divided by Net sales	Operating profit divided net sales	Net Profit / Net sales	Profit after Tax / Average Total assets	**A**
78	Why deferred tax liability arrises?	The difference between cash and profit.	The temporary differences between taxable income and accounting profit.	The difference sales and profit.	The difference cost of goods sold and profit.	**B**
79	Which of the following option is considered as current liabilities?	Bills recievables	Sundry creditors	Advance payments	Sundry debtors	**D**
80	What is meant by Assets?	Assets are Firm's own equity Shares.	Assets are resources which are expected to provide a firm with future economic benefit.	Assets represent obligations that are expected to mature within year.	Assets are the differences between taxable income and accounting profit.	**C**
81	Net sales are generally defined as ___________	Sales-Sales return -Excise duty	Sales and gross profit	Cost of goods sold	Sale and operating expense	**A**
82	The costs of goods sold is also called _______	Cost of sales	Cost of goods produced during accounting period.	Direct material cost	Direct labour cost	**A**
83	What is Gross Profit?	Profit before interest and Tax.	Difference between Net sales and the cost of goods sold.	It represents profit from operations after considering the cost of goods sold and operating expenses.	Non operating gains	**B**
84	Which one of the following asset would not be normally depreciated?	Land	Machinery	Computer	Patent	**A**
85	What is mean by Investments?	Copyrights	Noncurrent assets	Financial securities owned by the firm.	Net book value	**C**

86	Accounts receivable is also known as ______	Sundry debtors	Sundry creditors	Net cash	Gross profit	**A**
87	What the Cash flow statement Portrays?	The financial position of a firm at a given point of time.	The performance of a firm over a period of time	The flow of cash through the business during a given accounting period.	The flow of cash through the business during three months.	**C**
88	What is the major cash outflow for a firm?	Increase in deferred tax liability	Payment of taxes	Increase in reserves	Increase in term loans	**B**
89	Leverage ratio refers to ______________	The final result of business operations	As activity ratios or asset management raios, measure efficiently the assets are employed by a firm.	The ability of a firm to meet its obligations in the short run, usually one year	The use of debt finance	D

Q NO	QUESTION (2 marks per question)	OPTIONS				Correct Answer
		A	B	C	D	
1	Which one of the following is not a Discount Cash Flow (DCF) Criteria	Net Present Value	Internal Rate of Return	Accounting Rate of Return	Profitability Index	Accounting Rate of Return
2	The internal Rate of Return (IRR) criterion for project acceptance, under theoretically infinite funds is: accept all projects which have	IRR equal to the cost of capital	IRR greater than the cost of capital	IRR less than the cost of capital	IRR is twice of cost of capital	IRR greater than the cost of capital
3	Which of the following statements is incorrect regarding a normal project?	If the NPV of a project is greater than 0, then its PI will exceed 1.	If the IRR of a project is 8%, its NPV, using a discount rate, k, greater than 8%, will be less than 0.	If the IRR of a project is greater than the discount rate, k, then its PI will be greater than 1.	If the PI of a project equals 0, then the project's initial cash outflow equals the PV of its cash flows.	If the PI of a project equals 0, then the project's initial cash outflow equals the PV of its cash flows.
4	Assume that Project X costs ₹ 2,500 now and is expected to generate year-end cash inflows of ₹ 900, ₹ 800, ₹ 700, ₹ 600 and ₹ 500 in years 1 through 5. The opportunity cost of the capital may be assumed to be 10 per cent. Calculate the NPV?	₹ 250	₹ 225	₹ 325	₹ 275	₹ 225
5	Suppose that a project requires a cash outlay of ₹ 20,000, and generates cash inflows of ₹ 8,000; ₹ 7,000; ₹ 4,000; and ₹ 3,000 during the next 4 years. What is the project's payback?	3 years and 8 months	4 years and 3 months	3 years and 6 months	3 years and 4 months	3 years and 4 months
6	The __________________is the number of periods taken in recovering the investment outlay on the present value basis.	Accounting Rate of Return	Discounted Payback Period	Payback Period	Standard Payback	Discounted Payback Period
7	Which of the following is not the Permanent (Fixed) Working Capital Finance Sources	Shares	Debentures	Commercial Banks	Public deposits	Commercial Banks
8	The amount of current assets required to meet a firm's long-term minimum needs is referred to as __________ working capital	permanent	net	gross	temporary	permanent
9	Which of the following illustrates the use of a hedging (or matching) approach to financing?	Short-term assets financed with long-term liabilities.	All assets financed with a 50 percent equity, 50 percent long-term debt mixture.	Permanent working capital financed with long-term liabilities.	Short-term assets financed with equity.	Permanent working capital financed with long-term liabilities.
10	Which of the following is not cost of maintaining receivable	Cost of Financing Receivables	Administrative costs.	Collection costs	Manufacturing cost	Manufacturing cost
11	Capital Budgeting deals with:	Long-term Decisions	Short-term Decisions	Both (a) and (b)	Neither (a) nor (b)	Long-term Decisions
12	Capital Budgeting Decisions are:	Reversible	irreversible	Unimportant	not required	irreversible
13	Which of the following is not a capital budgeting decision?	Expansion Programme	Merger	Replacement of an Asset	Inventory Level	Inventory Level
14	Capital Budgeting Decisions are based on:	Incremental Profit	Incremental Cash Flows	Incremental Assets	Incremental Capital	Incremental Cash Flows
15	Depreciation is incorporated in cash flows because it:	Is unavoidable cost	Is a cash flow	Reduces Tax liability	Involves an outflow	Reduces Tax liability
16	A proposal is NOT a Capital Budgeting proposal if it:	is related to Fixed Assets	brings long-term benefits	brings short-term benefits only	has very large investment.	brings short-term benefits only
17	In Sensitivity Analysis, the emphasis is on assessment of sensitivity of	Net Economic Life	Net Present Value	Both (a) and (b)	None of (a) and (b)	Both (a) and (b)
18	Decision criterion with respect to profitability index to accept project if?	Profitability index is equal to or less than 1	Profitability index is greater than 1	Profitability index is less than or equal to 1	Profitability index is greater than 10	Profitability index is less than or equal to 1
19	A sound Capital Budgeting technique is based on:	Cash Flows	Accounting Profit	Interest Rate on Borrowings	Last Divide	Cash Flows
20	What is the net present value?	the future value of a project's cash flows plus its initial cost	the present value of a project's cash flows plus its initial cost	the future value of a project's cash flows minus its initial cost	the present value of a project's cash flows minus its initial cost	the present value of a project's cash flows minus its initial cost
21	Why are projects with negative net present values (NPVs) unacceptable to a firm?	Returns lower than the cost of capital result in firm failure.	Returns with negative NPVs cause an equal profit ratio.	Returns with negative NPVs are acceptable to a firm.	Returns lower than the cost of capital result in higher profit ratios.	Returns lower than the cost of capital result in firm failure.
22	The Internal Rate of Return is defined as	the discount rate which causes the payback to equal one year.	the discount rate which causes the NPV to equal zero.	the ROE when the NPV equals 0	the ROE associated with project maximization	the discount rate which causes the NPV to equal zero.
23	When a capital budgeting project generates a positive net present value, this means that the project earns a return higher than the	Internal rate of return.	Annual rate of return.	Required rate of return.	Present value index	Required rate of return.
24	There is deterioration in the management of working capital of XYZ Ltd. What does it refer to?	That the Capital Employed has reduced	That the Profitability has gone up	That debtors' collection period has increased	That Sales has decreased.	That debtors' collection period has increased
25	Which of the following would be consistent with an aggressive approach to financing working capital?	Financing short-term needs with short-term funds.	Financing permanent inventory buildup with long-term debt.	Financing seasonal needs with short-term funds.	Financing some long-term needs with short-term funds.	Financing some long-term needs with short-term funds.
26	Working Capital Turnover measures the relationship of Working Capital with:	Fixed Assets	Sales	Purchases	Stock	Fixed Assets
27	Which of the following is not incorporated in Capital Budgeting?	Rate of Cash Discount.	Required Rate of Return.	Time Value of Money.	Tax-Effect.	Rate of Cash Discount.
28	Which of the following variables is not known in Internal Rate of Return?	Initial Cash Flows	Discount Rate	Terminal Inflows	Life of the Project	Discount Rate
29	Which of the following capital-budgeting techniques takes into account the incremental accounting income rather than cash flows:	Accounting/Simple rate of return	Internal rate of return	Cash payback period	Net Present Value	Accounting/Simple rate of return
30	Which of the following techniques does not take into account the time value of money?	Internal rate of return method	Discounted cash payback method	Net present value method	Simple cash payback method	Simple cash payback method
31	Consider the following data on a proposed investment: Investment required: $160,000, Annual cash inflows: $40,000, Life of the investment: 6 years, Salvage value: 0, Discount rate: 10% Based on the above data, what is the payback period of the proposed investment project?	5 years	3 years	4 years	0.25 years	4 years
32	If the profitability index of a project is 0.75, it means:	the NPV of the project is greater than zero	the project's cost is less than the present value of its cash flows	the project returns 75 rupees present value for each 100 rupees invested in it	the NPV of the project is greater than 1	the project returns 75 rupees present value for each 100 rupees invested in it
33	What is PV of Rs 100 one year hence with discounting factor 25% ?	Rs 125	Rs 25	Rs 250	Rs 80	Rs 80
34	A project requires an investment of Rs.5, 00,000 and has a scrap value of Rs.20,000 after 5 years. It is expected to yield profits after depreciation and taxes during the next 5 years amounting to Rs. 40,000, Rs 60,000, Rs 70,000, Rs 50,000 and Rs20,000. The average rate of return(ARR) on the original investment is	12%	10%	15%	14%	0.1
35	The annual demand for a product is 10,000 units. The cost per item is Rs.20 and inventory carrying cost per unit per annum is 5%. If the cost of order is Rs. 200 per order, determine: Economic Order Quantity (EOQ)	1000	1500	2000	5000	2000
36	The XYZ purchases a new equipment. The selected data is given below: Cost of equipment: Rs 25,000, Useful life of equipment: 5 years, Tax rate: 30% If equipment is depreciated using straight line method, what is the depreciation tax benefit associated with the new equipment?	Rs 35000	Rs 1500	Rs 7500	Rs 5000	Rs 1500
37	________ of a project is the sum of all present values of all cash inflows minus present value of outflows?	Payback period	Net Present Value	Benefit to Cost Ratio	Internal Rate of Return	Net Present Value
38	ABC Ltd is considering undertaking a project that would yield average annual profits (after depreciation) of Rs. 68,000 for 5 years. The initial outlay of the project would be Rs. 800,000. What would be the accounting rate of return for this project?	17%	8.50%	8.00%	9.10%	0.17
39	The XYZ Co. is considering the purchase of a new machine that would increase the speed of packaging and save money. The net cost of this machine is Rs. 45,000. The annual cash flows have the following projections. Year Cash Flow 1 Rs. 15,000 2 Rs. 20,000 3 Rs. 25,000 4 Rs. 10,000 5 Rs. 5,000 What is the internal rate of return?	About 7%	About 10%	About 23%	About 27%	About 23%
40	Calculate the discounted payback period for a project with an initial cash outlay of Rs. 700 and annual free flows of Rs. 420, Rs. 103, Rs. 250, Rs. 350 and Rs. 200 in year 1, year 2, year 3, year 4, and year 5 respectively. Interest rate is 8%.	3.5 years	3.092 years	3.92 years	4 years	3.092 years
41	The use of NPV rule in investment decisions require information about –	Profit	Risk	Time value of money	Cash flows	Cash flows
42	Which of the following is not a part of Non-discounted cash flow criteria –	Payback	Discounted payback	Accounting rate of return	Net Present Value	Discounted payback
43	Working capital management is concerned with the inter-relationship existing between	Total assets and total liabilities	Total assets and current liabilities	Current assets and total liabilities	Current assets and current liabilities	Current assets and current liabilities
44	When current assets are less than current liabilities, then the net working capital is:	Positive	Negative	Zero	Can't be calculated	Negative
45	Which among the following is not a current liability?	Equity Shares	Interest payable	Accrued Expenses	Accounts Payable	Equity Shares
46	Which among the following is a current asset?	Patents	Plants & Equipment	Goodwill	Cash Balance	Cash Balance
47	While taking into consideration the trade-off between profitability and risk, a firm with higher net working capital will have	Low Risk and Low Profitability	Low Risk and High Profitability	High Risk and Low Profitability	High Risk and High Profitability	Low Risk and Low Profitability

48	While taking into consideration the trade-off between profitability and risk, a firm with low net working capital will have:	Low Risk and Low Profitability	Low Risk and High Profitability	High Risk and Low Profitability	High Risk and High Profitability	High Risk and High Profitability
49	The correct order of the stages of operating cycle is:	The raw material and inventory stores stage > work-in-progress stage > receivables stage > finished goods	The raw material and inventory stores stage > receivables stage> work-in-progress stage > finished goods inventory stage	The raw material and inventory stores stage > work-in-progress stage > finished goods inventory stage>	Any of the above	The raw material and inventory stores stage > work-in-progress stage > finished goods inventory stage> receivables stage
50	Gross Working Capital is the capital invested in	Total Assets	Total Assets minus Total Liabilities	Total Current Assets	Current Assets minus Current Liabilities	Total Current Assets
51	EOQ is a company's ________ order quantity that minimizes its total inventory costs.	Minimum	Maximum	Optimal	Not optimal	Optimal
52	___________________ of a firm refers to the composition of its long-term funds and its capital structure.	Capitalisation	Over-capitalisation	Under-capitalisation	Market capitalization	Capitalisation
53	In _______________ approach, the capital structure decision is relevant to the valuation of the firm.	Net income	Net operating income	Traditional	Miller and Modigliani	Net income
54	When __________ is greater than zero the project should be accepted.	Internal rate of return	Profitability index	Net present value	Modified internal rate of return	Net present value
55	____________ is defined as the length of time required to recover the initial cash out-lay	Payback-period	Inventory conversion period	Discounted payback-period	Budget period	Payback-period
56	_______________ refers to the amount invested in various components of current assets.	Temporary working capital	Net working capital	Gross working capital	Permanent working capital	Gross working capital
57	____________ is the length of time between the firm's actual cash expenditure and its own cash receipt.	Net operating cycle	Cash conversion cycle	Working capital cycle	Gross operating cycle	Net operating cycle
58	_______________ refers to a firm holding some cash to meet its routine expenses that are incurred in the ordinary course of business.	Speculative motive	Transaction motive	Precautionary motive	Compensating motive	Transaction motive
59	_______________ refers to the length of time allowed by a firm for its customers to make payment for their purchases.	Holding period	Pay-back period	Average collection period	Credit period	Credit period
60	Amounts due from customers when goods are sold on credit are called _____________.	Trade balance	Trade debits	Trade discount	Trade off	Trade debits
61	___________________ and _________________________ are the two versions of goals of the financial management of the firm	Profit maximisation, Wealth maximization	Production maximisation, Sales maximisation	Sales maximisation, Profit maximization	Value maximisation, Wealth maximisation	Profit maximisation, Wealth maximization
62	The gross profit margin is unchanged, but the net profit margin declined over the same period. This could have happened if	cost of goods sold increased relative to sales.	sales increased relative to expenses	Govt. increased the tax rate	dividends were decreased.	Govt. increased the tax rate
63	Which of the following statements (in general) is correct?	A low receivables turnover is desirable	The lower the total debt-to-equity ratio, the lower the financial risk for a firm.	An increase in net profit margin with no change in sales or assets means a poor ROI.	The higher the tax rate for a firm, the lower the interest coverage ratio	The lower the total debt-to-equity ratio, the lower the financial risk for a firm.
64	A firm's operating cycle is equal to its inventory turnover in days (ITD)	plus its receivable turnover in days (RTD).	minus its RTD	plus its RTD minus its payable turnover in days (PTD).	minus its RTD minus its PTD.	plus its receivable turnover in days (RTD).
65	Which of the following would be considered a application of funds?	a decrease in accounts receivable	a decrease in cash.	an increase in account payable	an increase in cash	an increase in cash
66	All of the following influence capital budgeting cash flows EXCEPT:	accelerated depreciation.	salvage value	tax rate changes.	method of project financing used	method of project financing used
67	The estimated benefits from a project are expressed as cash flows instead of income flows because:	it is simpler to calculate cash flows than income flows	it is cash, not accounting income, that is central to the firm's capital budgeting decision	this is required by the Internal Revenue Service	this is required by the Securities and Exchange Commission	it is cash, not accounting income, that is central to the firm's capital budgeting decision
68	A capital investment is one that	has the prospect of long-term benefits	has the prospect of short-term benefits	is only undertaken by large corporations	applies only to investment in fixed assets	has the prospect of long-term benefits
69	A PI of .75 for a project means that:	he present value of benefits is 75% greater than the project's costs	he project's NPV is greater than zero	the project returns 75 cents in present value for each current dollar invested	he payback period is less than one year	the project returns 75 cents in present value for each current dollar invested
70	Which of the following statements is correct?	If the NPV of a project is greater than 0, its PI will equal 0	If the IRR of a project is 0%, its NPV, using a discount rate, k, greater than 0, will be 0	If the PI of a project is less than 1, its NPV should be less than 0	If the IRR of a project is greater than the discount rate, k, its PI will be less than 1 and its NPV will be greater than	If the PI of a project is less than 1, its NPV should be less than 0
71	A project's profitability index is equal to the ratio of the of a project's future cash lows to the project's	present value; initial cash outlay	net present value; initial cash outlay	present value; depreciable basis	net present value; depreciable basis	present value; initial cash outlay
72	The discount rate at which two projects have identical is referred to as Fisher's rate of intersection	present values	net present values	IRRs	profitability indexes	net present values
73	Two mutually exclusive investment proposals have "scale differences" (i.e., the cost of the projects differ). Ranking these projects on the basis of IRR, NPV, and PI methods___________ give contradictory results	will never	will always	may	will generally	may
74	You are considering two mutually exclusive investment proposals, project A and project B. B's expected value of net present value is Rs. 1,000 less than that for A and A has less dispersion. On the basis of risk and return, you would say that	Project A dominates project B	Project B dominates project A	Project A is more risky and should offer greater expected value	Each project is high on one variable, so the two are basically equal	Project A dominates project B
75	To increase a given present value, the discount rate should be adjusted	upward	downward	No change	constant	downward
76	Which of the following would be consistent with a more aggressive approach to inancing working capital?	Financing short-term needs with short-term funds	Financing permanent inventory buildup with long-term debt	Financing seasonal needs with short-term funds	Financing some long-term needs with short-term funds	Financing some long-term needs with short-term funds
77	Which asset-liability combination would most likely result in the firm's having the greatest risk of technical insolvency?	Increasing current assets while lowering current liabilities	Increasing current assets while incurring more current liabilities	Reducing current assets, increasing current liabilities, and reducing long-term debt	Replacing short-term debt with equity	Reducing current assets, increasing current liabilities, and reducing long-term debt
78	In deciding the appropriate level of current assets for the firm, management is confronted with	a trade-off between profitability and risk	a trade-off between liquidity and marketability	a trade-off between equity and debt	a trade-off between short-term versus long-term borrowing	a trade-off between profitability and risk
79	__________varies inversely with profitability	Liquidity	Risk	Financing	Liabilities	Liquidity
80	Spontaneous financing includes	accounts receivable	accounts payable	short-term loans	a line of credit	accounts payable
81	Permanent working capital	varies with seasonal needs	includes fixed assets	is the amount of current assets required to meet a firm's long-term minimum needs	includes accounts payable	is the amount of current assets required to meet a firm's long-term minimum needs
82	Financing a long-lived asset with short-term financing would be	an example of "moderate risk -- moderate (potential) profitability" asset financing	an example of "low risk -- low (potential) profitability" asset financing	an example of "high risk -- high (potential) profitability" asset financing	an example of the "hedging approach" to financing	an example of "high risk -- high (potential) profitability" asset financing
83	Net working capital refers to	total assets minus fixed assets	current assets minus current liabilities	current assets minus inventories	current assets	current assets minus current liabilities
84	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:	an increase in the average collection period	a decrease in bad debt losses	an increase in sales	higher profits	an increase in the average collection period
85	A single, overall cost of capital is often used to evaluate projects because:	it avoids the problem of computing the required rate of return for each investment proposal	it is the only way to measure a firm's required return	it acknowledges that most new investment projects have about the same degree of risk	it acknowledges that most new investment projects offer about the same expected return	it avoids the problem of computing the required rate of return for each investment proposal
86	Which of the following would not be financed from working capital?	Cash float	Accounts receivable	Credit sales	A new personal computer for the office	A new personal computer for the office
87	Which of the following working capital strategies is the most aggressive?	Making greater use of short term finance and maximizing net short term asset	Making greater use of long term finance and minimizing net short term asset	Making greater use of short term finance and minimizing net short term asset	Making greater use of long term finance and maximizing net short term asset	Making greater use of short term finance and minimizing net short term asset
88	Which of the following is not a metric to use for measuring the length of the cash cycle?	Acid test days	Accounts receivable days	Accounts payable days	Inventory days	Acid test days
89	______is the process of managing these short-term assets and liabilities to ensure the company has adequate liquidity to operate smoothly.	cost management	Break even analysis	Working Capital Management	final accounts	C

Q NO	QUESTION (2 marks per question)	OPTIONS				Correct Answer
		A	B	C	D	
1	What is meant by capital structure?	total assets minus liabilities	shareholders' equity	long-term debt, preferred stock, and common stock equity.	current assets and current liabilities	C
2	What assumption have to consider to approach the Net operating income to valuation?	that debt and equity levels remain unchanged.	that interest expense and taxes are included in the calculation	that dividends increase at a constant rate.	that ko remains constant regardless of changes in leverage.	D
3	Which are the following assumption has considered in the traditional approach towards the valuation of a company?	that markets are perfect.	that there is an optimum capital-structure.	that the overall capitalization rate holds constant with changes in financial leverage.	that total risk is not altered by changes in the capital-structure	B
4	What is the weighted average cost of capital for a firm?	Discount rate which the firm should apply to all of the	Maximum rate which the firm should require on any projects it undertakes	Overall rate which the firm must earn on its existing assets to maintain the value of	Rate the firm should expect to pay on its next bond issue	C
5	Under the lease agreement, the lessee gets the right to	Share profits earned by the lessor	Participate in the management of the organisation	Use the asset for a specified period	Sell the assets	C
6	In deciding the appropriate level of current assets for the firm, management is confronted with	A trade-off between profitability and risk.	a trade-off between liquidity and marketability.	a trade-off between equity and debt.	a trade-off between short-term versus long-term borrowing.	A
7	Funds required for purchasing current assets is an example of	Fixed capital requirement	Ploughing back of profits	Working capital requirement	Lease financing	C
8	A single, overall cost of capital is often used to evaluate projects because:	It avoids the problem of computing the required rate of return for each investment proposal.	It is the only way to measure a firm's required return.	It acknowledges that most new investment projects have about the same degree of risk.	It acknowledges that most new investment projects offer about the same expected return.	A
9	If a firm has low fixed costs relative to all other firms in the same industry, a large change in sales volume (either up or down) would have:	a smaller change in EBIT for the firm versus the other firms	no effect in any way on the firms as volume does not effect fixed costs.	a decreasing effect on the cyclical nature of the business.	a larger change in EBIT for the firm versus the other firms.	A
10	Equity shareholders are called	Owners of the company	Partners of the company	Executives of the company	Guardian of the company	A
11	Internal sources of capital are those that are	Generated through outsiders such as suppliers	Generated through loans from commercial banks	Generated through issue of shares	Generated within the business	D
12	The term 'redeemable' is used for	Preference shares	Commercial paper	Equity shares	Public deposits	A
13	Which one of the following is part of short-term source of finance?	Preference Share Capital	Debentures	Bank Overdraft	Equity Share Capital	C
14	That part of the issued share capital which has been actually paid by shareholders, is called,	Authorized share capital	Paid-up share capital	Subscribed share capital	Preference Share Capital	B
15	Which one of the following is long term source of Finance?	Bank Overdraft	Bill Discounting	Equity Share Capital	Supplier's credit	C
16	Two firms that are virtually identical except for their capital structure are selling in the market at different values. According to Modigliani and Miller (M&M)	this will not continue because arbitrage will eventually	one will be at greater risk of bankruptcy	the firm with greater financial leverage will have the higher value	this proves that markets cannot be efficient.	A
17	A firm should select the structure of capital which	produces the highest cost of capital	minimizes taxes.	maximizes the value of the firm	has no debt.	C
18	Which of the following statements regarding the net operating income approach is incorrect?	The overall capitalization rate, K0, is constant.	The total value of the firm is unaffected by changes in financial leverage	The cost of debt funds, Kd, is constant.	The required return on equity, Ke, is constant.	D
19	The capital structure that maximizes the value of a firm also:	Minimizes financial distress costs	Minimizes the cost of capital	Maximizes the present value of the tax shield on debt	Maximizes the value of the debt	B
20	The term "capital structure" refers to:	Current assets and current liabilities	Long-term debt, preference shares, and equity shares	Total assets minus liabilities	Shareholders' equity	B
21	The overall (weighted average) cost of capital is composed of a weighted average of ___________.	The cost of equity and the cost of debt	The cost of equity and the cost of preference shares	The cost of preference shares and the cost of debt	The cost of equity, the cost of preference shares, and the cost of debt	D
22	For which of the following costs is it necessary to apply a tax adjustment to a yield measure?	Cost of preference shares	Cost of equity	Cost of debt	Cost of retained earnings	C
23	To compute the required rate of return for equity in a company using the CAPM, it is necessary to know all of the following EXCEPT:	The risk-free rate	The beta for the firm	The earnings for the next time period	The market return expected for the time period	C
24	The cost of equity capital is all of the following except:	The minimum rate that a firm should earn on the equity-	By far the most difficult component cost to estimate	Generally lower than the before-tax cost of debt	Almost equal to rate of return	C
25	Which of the following sources of funds has an Implicit Cost of Capital?	Equity Share Capital	Preference Share Capital	Debentures	Retained earnings	D
26	Marketable securities are primarily	Equity shares	Preference shares	Fixed deposits with companies	Short-term debt investments.	D
27	Which of the following illustrates the use of a hedging (or matching) approach to financing?	Short-term assets financed with long-term liabilities.	Permanent working capital financed with long-term liabilities.	Short-term assets financed with equity.	All assets financed with 50 percent equity, 50 percent long-term debt mixture.	B
28	When a firm needs short-term funds for a specific purpose, the bank loan will likely be a:	transaction loan.	compensating balance arrangement.	revolving credit agreement.	line of credit.	A
29	Preferred shareholders' claims on assets and income of a firm come ________those of creditors _____________ those of common shareholders.	before; and also before	after; and also after	equal to; and equal to	after; but before	D
30	Debentures represent	Fixed capital of the company	Permanent capital of the company	Fluctuating capital of the company	Loan capital of the company	D
31	Internal sources of capital are those that are	Generated through outsiders such as suppliers	Generated within the business	Generated through issue of shares	Generated through loans from commercial banks	B
32	Which of the following is not true about the long term finance purpose	To finance fixed assets	To finance the inventory	Expansion of companies	Increasing facilities	B
33	The increase in risk to equity holders when financial leverage is introduced is evidenced by:	higher EPS as EBIT increases.	a higher variability of EPS with debt than all equity.	increased use of homemade leverage.	equivalence value between levered and unlevered firms in the presence of taxes.	B
34	The proposition that the value of the firm is independent of its capital structure is called:	the capital asset pricing model	MM Proposition I	MM Proposition II.	the law of one price.	B
35	The proposition that the cost of equity is a positive linear function of capital structure is called:	the capital asset pricing model	MM Proposition I	MM Proposition II.	the law of one price.	C
36	A quick approximation of the typical firm's cost of equity may be calculated by	Adding a 5 percent risk premium to the firm's before-	Adding a 5 percent risk premium to the firm's after-tax cost of debt.	Subtracting a 5 percent risk discount from the firm's before-tax cost of debt.	Subtracting a 5 percent risk discount from the firm's after-tax cost of debt.	A
37	A Sports Company relies on preferred stock, bonds, and common stock for its long-term financing. Rank in ascending order (i.e., 1 = lowest, while 3 = highest) the likely after-tax component costs of the Sports Company's long-term financing.	1 = bonds; 2 = common stock; 3 = preferred stock.	1 = bonds; 2 = preferred stock; 3 = common stock.	1 = common stock; 2 = preferred stock; 3 = bonds.	1 = preferred stock; 2 = common stock; 3 = bonds.	B
38	Honeywell International Inc has a market debt-equity ratio of 0.5. Assume its current debt cost of capital is 6.5%, and its equity cost of capital is 14%. What is weighted average cost of capital (WACC)?	15%	10%	14%	12%	D
39	Calculate market value of a firm ABC Ltd having EBIT Rs 6,00,000, interest on debt is Rs 2,40,000 and its rate is 5% pa. Cost of equity Ke is 10% pa. Market value of ABC in Rs is	8,40,000	8,00,000	84,00,000	3,60,000	D
40	Calculate the value of equity capital of a firm XYZ Ltd having WACC (Ko) 10% and has an EBIT of Rs. 1,00,000. The company employs 50 % of its total capital (Rs 10,00,000) as debt with cost 6% pa.	Rs 5,00,000	Rs 9,00,000	Rs 15,00,000	Rs 11,00,000	A
41	Which of the following is not an assumption in the Miller & Modigliani approach?	There are no transaction costs	Securities are infinitely divisible	All the firms pay tax on their income at the same rate	Investors have homogeneous expectations	C
42	According to _______________ both the cost of debt and the cost of equity are independent of the capital structure; they remain constant regardless of how much debt the firm uses.	Net income (NI) approach	Net operating income (NOI) approach	Trade-off theory	Miller's hypothesis	A

43	Which of the following is not true about Line of credit	The firm can borrow up to that amount of money	Usually informal agreement and may change over time	More often, it is in the form of a lost discount that would be given to firms who	Usually covers peak demand times, growth spurts	C
44	What is the value of the tax shield if the value of the firm is $5 million, its value if unlevered would be $4.78 million, and the present value of bankruptcy and agency costs is $360,000?	$140,000	$220,000	$360,000	$580,000	D
45	A company has a financial structure where equity is 70% of its total debt plus equity. Its cost of equity is 10% and gross loan interest is 5%. Corporation tax is paid at 30%. What is the company's weighted average cost of capital (WACC)?	7.45%	7.50%	8.05%	8.50%	C
46	The concept of homemade leverage is most associated with:	MM Proposition I with no tax.	MM Proposition II with no tax.	MM Proposition I with tax.	MM Proposition II with tax.	A
47	XML music Shop has a cost of debt of 7%, a cost of equity of 11%, and a cost of preferred stock of 8%. The firm has 104,000 shares of common stock outstanding at a market price of Rs 20 a share. There are 40,000 shares of preferred stock outstanding at a market price of Rs 34 a share. The bond issue has a total face value of Rs 500,000 and sells at 102% of face value. The tax rate is 34%. What is the weighted average cost of capital for Peter's Audio Shop?	6.14%	6.54%	8.60%	9.14%	D
48	Cameron Industries is expected to pay an annual dividend of Rs 1.30 a share next month. The market price of the stock is Rs 24.80 and the growth rate is 3 percent. What is the firm's cost of equity?	7.58%	7.91%	8.24%	8.40%	C
49	Ellie's Boutique has a bond issue outstanding that matures in fourteen years. The bonds pay interest semi-annually. Currently, the bonds are quoted at 98 percent of face value and carry an 8 percent coupon. The firm's tax rate is 35 percent. What is the firm's after tax cost of debt?	2.88%	5.36%	5.45%	8.24%	B
50	Which one of the following statements is correct concerning the weighted average cost of capital (WACC)?	The WACC may decrease as a firm's debt-equity ratio increases.	When computing the WACC, the weight assigned to the preferred stock is based on the coupon rate multiplied by the par value of the stock.	A firm's WACC will decrease as the corporate tax rate decreases.	The weight of the common stock used in the computation of the WACC is based on the number of shares outstanding multiplied by the book value per share.	A

Q NO	QUESTION (2 marks per question)	OPTIONS				Correct Answer
		A	B	C	D	
1	____________ refers to that part of profits of a company which is distributed by the company among its shareholders	Dividend	Interest	Tax	shares	A
2	The dividend policy must be formulated considering two basic objectives, namely	delaying the tax liability of the stockholder and information content	maximizing shareholder wealth and delaying the tax liability of the stockholder	maximizing shareholder wealth and providing for sufficient financing	maintaining liquidity and minimizing the weighted average cost of capital	C
3	The factors involved in setting a dividend policy include all of the following EXCEPT	restrictive covenants in a bond indenture	growth prospects.	the legal prohibition on paying dividends which exceed current earnings.	capital impairment restrictions	C
4	Gordon's "bird-in-the-hand" argument suggests that	dividends are irrelevant.	firms should have a 100 percent payout policy	shareholders are generally risk averse and attach less risk to current dividends	the market value of the firm is unaffected by dividend policy	C
5	The information content of dividend refers to	non payment of dividends by corporations	dividend changes as indicators of a firm's future	a stable and continuous dividend	a dividend paid as a percent of current earnings	B
6	Which type of dividend payment policy has the advantage that if the firm's earnings drop, dividends will be maintained at a relatively constant level?	Constant-payout-ratio policy	Regular dividend policy	Low-regular and-extra dividend policy.	Constant payout policy	B
7	Modigliani and Miller argue that when the firm has no acceptable investment opportunities, it should	close its doors	distribute the unneeded funds to the owners.	lower its cost of capital	retain the funds until an acceptable project arises	B
8	Modigliani and Miller suggest that the value of the firm is not affected by the firm's dividend policy, due to	the relevance of dividends	the clientele effect.	the informational content.	the optimal capital structure	B
9	The residual theory of dividends suggests that dividends are _________ to the value of the firm.	residual	relevant	irrelevant	integral	C
10	Which of the following techniques does not reward shareholders for investing in a company?	Repurchasing company shares.	Offering non-pecuniary benefits.	Making a rights issue.	Paying a final dividend	C
11	Which of the following statements lends most support to the theory that dividend payments are irrelevant to the value of ordinary shares?	Shareholders making homemade dividends face dealing costs	Shareholders are concerned with total earnings rather than with the split between distributed and retained earnings.	Investors' discount rates increase with time due to uncertainty.	Firms have particular clienteles due to their dividend policy	C
12	Retained earnings are	An indication of a company's liquidity.	The same as cash in the bank	Not important when determining dividends.	The cumulative earnings of the company after dividends.	D
13	Which of the following are theories for dividend relevance?	Walter's Model	MM Approach	Game theory	Market Value theory	A
14	Dividend Payout Ratio is:	PAT Capital	DPS ÷ EPS	Pref. Dividend ÷ PAT	Pref. Dividend ÷ Equity Dividend	B
15	Which of the following is true for MM Model?	Share price goes up if dividend is paid	Share price goes down if dividend is paid	Market value is unaffected by Dividend policy	Share price goes up if dividend is not paid	A
16	Gordon's Model of dividend relevance is same as	No-growth Model of equity valuation	Constant growth Model of equity valuation	Price-Earning Ratio	Inverse of Price Earnings Ratio	B
17	Dividend per share as a percentage of earnings per share is	Dividend yield	Payout ratio	Retention ratio	Capital gains	B
18	Walter's model is based on	External Financing	Constant EPS and DIV	The bird-in-the-hand argument	Finite time	B
19	The view that under a perfect market situation , the dividend policy of a firm is irrelevant, as it does not affect the value of the firm, is held by	The bird-in-the-hand argument	Gordon's model	Miller and Modigliani's hypothesis	Walter's model	C
20	Select the option that is not the part of assumptions relating to Miller and Modigliani's hypothesis	Existence of corporate taxes	No risk	Fixed investment policy	Perfect capital markets	A
21	The view that distant dividends would be discounted at a higher rate than near dividends, is held by	The Gordon's model	The Walter's model	The Bird- in – the hand argument	Miller and Modigliani's hypothesis	C
22	According to the residual theory of dividends, if the firm's equity need exceeds the amount of retained earnings, the firm would	borrow to pay the cash dividend	sell additional stock to pay the cash dividend	pay no cash dividends.	not need to consider its dividend policy.	C
23	Which of the following factors is most likely to explain why a company decides to increase its annual dividend?	A firm belief by management that dividends represent a residual payment	A large number of desirable projects.	A large proportion of its shares are owned by institutional investors	Poor cash flows	C
24	The net effect of stock repurchase is	similar to cash dividend	similar to payment of stock dividend	similar to stock spilt	similar to reverse stock split	A
25	The problem with a constant payout ratio dividend policy from the shareholder's perspective is that	it bores the shareholders	if the firm's earnings drop, so does the dividend payment	there is no informational content	even when earnings are low, the company must pay a fixed dividend	B