University of Mumbai

Program: **ALL_Institute Level Optional Course 2**

Question Bank

Curriculum Scheme: Rev2016

Examination: BE Semester VIII

Course Code: ILO 8022 and Course Name: Finance Management

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Objective Questions

1.	MM Theory in perfect market suggests that dividend payment
Option A:	Has a positive impact on the value of a firm
Option B:	Has no impact on the value of a firm
Option C:	Has negative impact on the value of a firm
Option D:	Has negligible impact on the value of a firm
2.	A low risk-taking individual will most probably invest in which of these instruments:
Option A:	Equity
Option B:	Debt
Option C:	Fixed Deposits
Option D:	Mutual Funds
3.	Purchasing equipment plus investing in modern technology indicates:
Option A:	Increased profit
Option B:	Growth & Diversification
Option C:	Happy Shareholders
Option D:	Capital financing
4.	Mukesh has two options to choose: 1. investment which would give him a returns of 15% with 15% standard deviation. 2. investment which would give him a returns of 13% with 25% standard deviation. He has chosen the second option. What type of risk profile does he represent?
Option A:	Risk - Averse
Option B:	Risk - Premium
Option C:	Risk - Neutral
Option D:	Risk - Seeking
5.	The amount spent for capital expenditures will be reported in which section of the statement of cash flows?
Option A:	Cash Provided/used In Financing Activities
Option B:	Cash Provided/used In Investing Activities
Option C:	Cash Provided/used In Operating Activities
Option D:	Supplemental Information
6.	Project finance is

Option A:	Balance Sheet financing
Option B:	Difficult financing
Option C:	Off-Balance Sheet financing
Option D:	Mezzanine financing
7.	To estimate the optimal level of current assets comprises a tradeoff w.r.t costs that that fall with current assets and costs that rise with current assets. The former are referred to as __________ and the latter as ___________ respectively. Justify.
Option A:	Shortage Costs and Ordering Costs
Option B:	Carrying Costs and Shortage Costs
Option C:	Ordering Costs and Shortage Costs
Option D:	Shortage Costs and Carrying Costs
8.	Which of these is an example of internal source of finance:
Option A:	Sale of surplus assets
Option B:	Government Grants
Option C:	Leasing
Option D:	Mortgage
9.	Axis Bank, PNB, SBI, ICICI are:
Option A:	Foreign Banks
Option B:	Public Sector Banks
Option C:	Commercial Banks
Option D:	Private Sector Banks
10.	The preparation of pricing, budgeting, goal setting, distribution channel and other objectives can be worked upon majorly with the help of:
Option A:	Sales and Promotion
Option B:	Financial Reporting System
Option C:	Investment Decisions
Option D:	Profit Margin
11.	Which of the following are NOT functions of a financial system?
Option A:	The operation of a payments system.
Option B:	Providing the means of portfolio adjustment.
Option C:	Helping to reduce unemployment.
Option D:	Channelling funds between lenders and borrowers.
12.	Financial intermediation is the process that the financial intermediaries connect _________________ and ______________ by transferring funds from one side to another.
Option A:	Banks and account holders
Option B:	Borrowers and lenders
Option C:	Borrowers and securities firms
Option D:	Investors and lenders
13.	______________is the chance that governing bodies will make unfavorable changes in tax laws, driving down the after-tax returns and market values of

	certain investments.
Option A:	Tax Risk
Option B:	liquidity risk
Option C:	event risk
Option D:	business risk
14.	The current value of future cash flows discounted at the appropriate discount rate over some length of time period is called ____
Option A:	future value
Option B:	present value
Option C:	discount value
Option D:	Tax value
15.	Corporate finance is the division of____ that deals with financing, capital structuring, and investment decisions.
Option A:	a) finance
Option B:	b) corporate
Option C:	c) Accounts
Option D:	d) outsourcing
16.	____is the ratio between Quick Current Assets and Current Liabilities. They should be at least equal to 1
Option A:	current ratio
Option B:	profit ratio
Option C:	quick ratio
Option D:	immediate ratio
17.	Three Major Decisions in Corporate Finance does not include following,
Option A:	Investment decision
Option B:	Financing decision
Option C:	Strategy Decision
Option D:	Dividend decision
18.	The internal Rate of Return (IRR) criterion for project acceptance, under theoretically infinite funds is: accept all projects which have
Option A:	a) IRR equal to the cost of capital
Option B:	b) IRR greater than the cost of capital
Option C:	c) IRR less than the cost of capital
Option D:	d) IRR equal to the Net profit
19.	. __________ of a company refers to the composition or make-up of its capitalisation and it includes all long-term capital resources viz : loans, reserves, shares and books
Option A:	Capital structure
Option B:	capital budgeting
Option C:	Working capital
Option D:	Profitability

20.	Modigliani and Miller argue that the dividend decision ___________.
Option A:	is irrelevant as the value of the firm is based on the earning power of its assets
Option B:	is relevant as the value of the firm is not based just on the earning power of its assets
Option C:	is irrelevant as dividends represent cash leaving the firm to shareholders, who own the firm anyway
Option D:	is relevant as cash outflow always influences other firm decisions

Subjective Questions

1	PNG's current assets and current liabilities are ₹ 2,00,00,000 and ₹ 1,40,00,000 respectively. How much additional funds can it borrow from banks for short term, without reducing the current ratio below 1.33?
2	Distinguish between equity & debt instruments.
3	What are leverage ratios? Explain any two types of the same.
4	How and why are risk and return considered significant factors in finance management?
5	What is mezzanine financing? Explain with an example.
6	Describe in brief the Net income Approach as a Capital Structure theory.
7	Explain various Financial Instruments in detail
8	Suppose you deposit $1,000 in an account that pays 12% interest, compounded quarterly. How much will be in the account after eight years if there are no withdrawals?Explain concept of Annuity in detail
9	Explain various Techniques of inventory Management
10	List various theories of capital structure. explain any one theory
11	Define risk and return. Explain Measurement of Historical Returns and Expected Returns of a Single Security and a Two-security Portfolio
12	Explain Financial Statements—Balance Sheet, Profit and Loss Account, and Cash Flow Statement
13	Explain various decisions in corporate finance. Also explain Current ratio, Quick ratio and composite ratio
14	What are financial institutions? Explain various types in detail
15	Julie Miller is evaluating a new project for her firm, Basket Wonders (BW). She has determined that the after-tax cash flows for the project will be $10,000; $12,000; $15,000; $10,000; and $7,000, respectively, for each of the Years 1 through 5. The initial cash outlay will be $40,000. Calculate payback period. also comment on strength and weakness of payback period
16	Differentiate between ordinary annuity and annuity due with examples.

<table>
<tr><td>17</td><td>Explain any 5 types of money market instruments in brief.</td></tr>
<tr><td>18</td><td>Describe the relation between Capital Structure and Corporate Value.</td></tr>
<tr><td>19</td><td>What are the factors affecting an Entity’s Working Capital Needs?</td></tr>
<tr><td>20</td><td>Briefly explain the types of financial services</td></tr>
<tr><td>21</td><td>How does one manage the receivables under working capital management?</td></tr>
<tr><td>22</td><td>ABBC Company is considering an investment Project A with the expected cash flows as shown below:
<table>
<tr><th>Year</th><th>Project A (₹)</th></tr>
<tr><td>0</td><td>(1,000)</td></tr>
<tr><td>1</td><td>(1,200)</td></tr>
<tr><td>2</td><td>(600)</td></tr>
<tr><td>3</td><td>(250)</td></tr>
<tr><td>4</td><td>2,000</td></tr>
<tr><td>5</td><td>4,000</td></tr>
</table>
What is the NPV if the interest rate is 8%. What is the IRR of the Project?
Should the company invest in the project?</td></tr>
<tr><td>23</td><td>The shares of Armstrong company has the following anticipated returns with associated probabilities:
<table>
<tr><th>Return (%)</th><td>−20</td><td>−10</td><td>10</td><td>15</td><td>20</td><td>25</td><td>30</td></tr>
<tr><th>Probability</th><td>0.05</td><td>0.10</td><td>0.20</td><td>0.25</td><td>0.20</td><td>0.15</td><td>0.05</td></tr>
</table>
Calculate the expected rate of return and risk measures in terms of variance & standard deviation.</td></tr>
<tr><td>24</td><td>Explain with suitable example the concept & importance of Economic Order Quantity.</td></tr>
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