Que. 1 Financial management is primarily concerned with……………..

a) All aspects of acquiring of funds and utilization of financial resources for firm activities.

b) Arrangements of funds

c) Efficient management of every business

d) Profit maximization

Answer: Option A

Que2. The primary goal of financial management is………

a) To maximize the return

b) To minimize the return

c) To maximize the wealth of owners

d) To maximize profit

Answer: Option C

Que3. In his traditional role the finance manager is responsible for……………

a) Proper utilization of funds

b) Arrangement of financial resources

c) Acquiring capital assets of the organization

d) Efficient management of capital

Answer: Option B

Q4. Investment can be defined as

A) Person's dedication to purchasing a house or flat

B) Use of capital on assets to receive returns

C) Usage of money on a production process of products and services

D) Net additions made to the nation's capital stocks

Answer: B

Q5. The finance manager is accountable for.

A) Earning capital assets of the company

B) Effective management of a fund

C) Arrangement of financial resources

D) Proper utilisation of funds

Answer: C

Q.6. The ultimate concern of Financial Management is:

A. to arrange the funds
B. effective management of all the business
C. receiving the maximum profit
D. to acquire and utilize every aspect of financial resources in order to maintain the firm activities

Answer: Option D.

Q.7. The finance manager's role is to:

A. ensures that the funds are properly utilized
B. maintains the financial health
C. effective supervision of capital
D. obtains capital assets of the organization

Answer: Option B.

Q.8. Among the following options which one is not included in money market security?

A. Treasury bills
B. Certificate deposit
C. Commercial paper
D. National savings certificate

Answer: Option D.

Q.9. Which one is/are financial assets?

A. bonds
B. machines
C. stocks
D. both a and c

Answer: Option D.

Q.10. Among the following options which one is included in money market security?

E. Treasury bills
F. Life insurance premium
G. Fixed Deposit Certificate
H. National savings certificate

Answer: Option A.

What is Financial Management? Discuss the main objectives of Financial Management with examples.

TIME VALUE OF MONEY

1. Time value of money indicates that

a) A unit of money obtained today is worth more than a unit of money obtained in future

b) A unit of money obtained today is worth less than a unit of money obtained in future

c) There is no difference in the value of money obtained today and tomorrow

d) None of the above

View Answer / Hide Answer

ANSWER: a) A unit of money obtained today is worth more than a unit of money obtained in future

2. Time value of money supports the comparison of cash flows recorded at different time period by

a) Discounting all cash flows to a common point of time
b) Compounding all cash flows to a common point of time
c) Using either a or b
d) None of the above.

View Answer / Hide Answer

ANSWER: c) Using either a or b

3. If the nominal rate of interest is 10% per annum and there is quarterly compounding, the effective rate of interest will be:

a) 10% per annum
b) 10.10 per annum
c) 10.25%per annum
d) 10.38% per annum

View Answer / Hide Answer

ANSWER: d) 10.38% per annum

4. Relationship between annual nominal rate of interest and annual effective rate of interest, if frequency of compounding is greater than one:

a) Effective rate > Nominal rate
b) Effective rate < Nominal rate
c) Effective rate = Nominal rate
d) None of the above

View Answer / Hide Answer

ANSWER: a) Effective rate > Nominal rate

5. Mr. X takes a loan of Rs 50,000 from HDFC Bank. The rate of interest is 10% per annum. The first

installment will be paid at the end of year 5. Determine the amount of equal annual installments if Mr. X wishes to repay the amount in five installments.

a) Rs 19500
b) Rs 19400
c) Rs 19310
d) None of the above

View Answer / Hide Answer

ANSWER: c) Rs 19310

6. If nominal rate of return is 10% per annum and annual effective rate of interest is 10.25% per annum, determine the frequency of compounding:

a) 1
b) 2
c) 3
d) None of the above

View Answer / Hide Answer

ANSWER: b) 2

7. Present value tables for annuity cannot be straight away applied to varied stream of cash flows.

a) True
b) False

View Answer / Hide Answer

ANSWER: a) True

8. Heterogeneous cash flows can be made comparable by

a) Discounting technique
b) Compounding technique
c) Either a or b
d) None of the above

View Answer / Hide Answer

ANSWER: c) Either a or b

1. Money has time value because:
   A. Individuals prefer future consumption to present consumption.
   B. Money today is more certain than money tomorrow
   C. Money today is wroth more than money tomorrow in terms of purchasing power.
   D. There is a possibility of earning risk free return on money invested today.
   E. **(b), (c) and (d) above.**
2. Given an investment of Rs. 10,000 to be invested for one year;
   A. It is better to invest in a scheme that pays 10% simple interest.
   B. It is better to invest in a scheme that pays 10% annual compound interest.
   C. **Both (a) and (b) provide the same return**

3. Given an investment of Rs. 10,000 for a period of one year, it is better to invest in a scheme that pays:
   A. 12% interest compounded annually
   B. 12% interest compounded quarterly
   C. 12% interest compounded monthly
   D. **12% interest compounded daily**
4. Given an investment of Rs. 10,000 over a period of two years, it is better to invest in a scheme that pays;
   A. 10% interest in the first year and 12% in second year.
   B. 12% interest in the first year and 10% in second year.
   C. **Both (a) and (b) above provide the same return**
5. The relation between effective annual rate of interest (re) and nominal rate of interest (r) is best represented by;
   A.
   B.
   C.
   D. None of the above
6. 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:
   A. Present value of a single cash flow table
   B. **Present value of annuity table.**
   C. Future value of a single cash flow table
   D. Future value of annuity table
7. Sinking fund factor is the reciprocal of:
   A. Present value interest factor of a single cash flow.
   B. Present value interest factor of an annuity.
   C. Future value interest factor of a single cash flow.
   D. **Future value interest factor of an annuity.**
8. If the effective rate of interest compounded quarterly is 16%, then the nominal rate of interest is:
   A. 14.6%
   B. 15%
   C. 14.8%
   D. **15.12%**
9. If the interest rate on a loan is 1% per month, the effective annual rate of interest is:
   A. 12%
   B. 12.36%
   C. **12.68%**
   D. 12.84%
10. If a loan of Rs. 30,000 is to be paid in 5 annual installments with interest rate of 12% p.a. then the equal annual installment will be;
    A. Rs. 7400
    B. Rs. 8100
    C. Rs. 7812
    D. **Rs. 8322**
11. X took a housing loan of Rs. 25,00,000. The loan is to be redeemed in 120 monthly installments of Rs. 31,000 each to be paid at the end of each month. What is the implied interest rate per annum.
    A. **8.50%**
    B. 8.1%
    C. 7.70%
    D. 9.12%
12. The difference between effective annual rate of interest with monthly and quarterly compounding, when nominal rate of interest is 10% is;
    A. 0.10%
    B. 0.14%
    C. 0.21%
    D. **0.09%**
13. A bond has a face value of Rs. 1000 and a coupon rate of 10%. It will be redeemed after 4 years at 10% premium. Find the present value of bond at a required rate of 12%:
    A. **Rs. 1002.80**
    B. Rs. 960.72

C. Rs. 980.84
D. Rs. 1020.12

14. You want to buy an ordinary annuity that will pay you 4,000 a year for the next 20 years. You expect annual interest rates will be 8 percent over that time period. The maximum price you would be willing to pay for the annuity is closest to
A. 32,000
B. **39,272**
C. 40,000
D. 80,000

15. With continuous compounding at 10 percent for 30 years, the future value of an initial investment of 2,000 is closest to
A. 34,898
B. **40,141**
C. 1,64,500
D. 3,28,282

16. In 3 years you are to receive 5,000. If the interest rate were to suddenly increase, the present value of that future amount to you would
A. **fall**
B. rise
C. remain unchanged
D. cannot be determined without more information

17. Assume that the interest rate is greater than zero. Which of the following cash-inflow streams should you prefer?

	Year1	Year2	Year3	Year4
A.	**400**	**300**	**200**	**100**
B.	100	200	300	400
C.	250	250	250	250

D. Any of the above, since they each sum to 1,000

18. You are considering investing in a zero-coupon bond that sells for 250. At maturity in 16 years it will be redeemed for 1,000. What approximate annual rate of growth does this represent?
A. 8 percent
B. **9 percent**
C. 12 percent
D. 25 percent

19. To increase a given present value, the discount rate should be adjusted
A. upward
B. **downward**
C. same

20. For 1,000 you can purchase a 5-year ordinary annuity that will pay you a yearly payment of 263.80 for 5 years. The compound annual interest rate implied by this arrangement is closest to
A. 8 percent
B. 9 percent
C. **10 percent**
D. 11 percent

21. You are considering borrowing 10,000 for 3 years at an annual interest rate of 6%. The loan agreement calls for 3 equal payments, to be paid at the end of each of the next 3 years. (Payments include both principal and interest.) The annual payment that will fully pay off (amortize) the loan is closest to
A. 2,674
B. 2,890
C. **3,741**
D. 4,020

22. In a typical loan amortization schedule, the amount of interest paid each period ____ .
A. increases with each payment
B. **decreases with each payment**
C. remains constant with each payment

23. In a typical loan amortization schedule, the total amount of money paid each period ____ .
A. increases with each payment
B. decreases with each payment
C. **remains constant with each payment**

Cost of Capital

Cost of capital is the minimum rate of return expected by its investors

a. Given Statement is true.
b. Given statement is False.
c. Given Statement is true in some cases.
d. Given statement is unreasonable.

1. Cost of Capital does not mean:
    a. Cut Off rate is decided by management
    b. Rate of interest
    c. Expectations of investors for dividend
    d. Money paid to SEBI for permission to acquire capital
2. Which of the following statements are false?
    a. Retained earnings do not involve any cost.
    b. Composite cost refers to sum of cost of equity and cost of debt.
    c. According to traditional approach, cost of capital is affected by debt-equity mix.
    d. All of the above

What are the considerations in designing capital structure of a corporate?

a. Trading on Equity
b. Cost of Capital
c. Profitability
d. All of the above

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 assets pricing model

6. Which of the following is correct for RADR?
    a. Accept a project if NPV at RADR is negative
    b. Accept a project if IRR is more than RADR
    c. RADR is overall cost of capital plus risk-premium
    d. All of the above.

Cost of Capital refers to:

a. Flotation Cost
b. Dividend
c. Minimum Required Rate of Return
d. None of the above.

Cost of capital is highest in case of:

a. Debt
b. Equity
c. Loans
d. Bonds

Which of the following has an implicit cost of capital?

a. Equity Share Capital
b. Preference Share Capital
c. Debentures
d. Retained Earnings

Which of the following is false?

e. Retained earnings are cost free
f. External Equity is cheaper than internal equity
g. Retained Earnings are costlier than External Equity.
h. All of the above

Minimum rate of return that a firm must earn in order to satisfy its investors, is also known as:

a. Average Return on investment
b. Weighted average cost of capital
c. Net Profit Cost.
d. Average cost of borrowing

11. Cost of capital is lowest in case of:

a. Debt
b. Equity
c. Loans
d. Bonds

Cost of Capital is lowest in case of debt due to:

e. Low interest rate
f. Time value of money
g. Tax- Deductibility of Interest
h. All of the above

4 Leverage

1. Which of the following is studied with the help of operating leverage?
a. Analysis of Business Risk
b. Analysis of Financial Risk
c. Analysis of Production Risk
d. Analysis of credit Risk
2. Which formula is used to measure the degree of operating leverage?
    a. EBT/EBIT
    b. **Contribution/EBIT**
    c. EBIT/EBT
    d. EBIT/Contribution
3. High operating leverage indicates a company has:
    a. High Fixed Cost
    b. Low Variable Cost
    c. Both a & b
    d. None of the above.
4. Financial leverage is also known as:
    a. Composite leverage
    b. Breakeven Point
    c. Trading on equity
    d. Capital Structure leverage
5. The extent to which an organization uses fixed cost on its cost structure is called:
    a. Overall leverage
    b. Financial leverage
    c. Fixed leverage
    d. Operating leverage

6. Use of fixed interest securities in the capital structure is called:

a. Operating leverage
b. Financial leverage
c. Overall leverage
d. None of the above.

7. Financial leverage will be one when:
   a. Debt is more than equity
   b. Debt is less than equity
   c. Debt is NIL
   d. Preference dividend is nil
8. EPS will be zero at:
   a. Financial breakeven point
   b. Operating breakeven point
   c. Both A & B above
   d. None of the above
9. Operating leverage arises because of:
   a. Fixed Production Cost
   b. Fixed Interest Cost
   c. Variable Cost
   d. None
10. Financial leverage arises because of:
   a. Fixed Production Cost
   b. Variable Cost
   c. Fixed Interest Cost
   d. None.

CAPITAL BUDGETING

1. Capital budgeting is also known as:
a. Investment decisions making
b. Planning capital expenditure
c. Both of the above
d. None of the above
2. Capital budgeting decisions are off:
a. Long term nature
b. Short term nature
c. Both the above
d. None of the above
3. Which of the following is not a capital budgeting decision?
a. Expansion Programme
b. Acquisition of long term assets
c. Replacement of an existing asset
d. Inventory control

4. Capital Budgeting decisions are based on:
    a. Incremental cash flows
    b. Incremental Profit
    c. Incremental Assets
    d. Decremental Assets
5. Evaluation of capital budgeting proposals is based on cash flows because:
    a. Cash Flows are is easy to calculate.
    b. Cash Flows are suggested by SEBI
    c. Cash is more important than profit
    d. None of the above
6. Depreciation is incorporated in cash flows because it:
    a. Is unavoidable cost
    b. Is a cash flow
    c. Reduces Tax liability
    d. Involves an outflow
7. Discounted Cash flow criteria for investment appraisal do not include:
    a. Net present value
    b. Benefit-cost ration
    c. Accounting rate of return
    d. Internal rate of return
8. Approximately, IRR is inverse of:
    a. Payback period
    b. NPV
    c. Adjusted Accounting Rate of Return
    d. None of the above
9. A sound method of capital budgeting is based on:
    a. Accounting Profit
    b. Cash flows
    c. All of the above
    d. None of the above
10. Capital Budgeting is a part of:
    a. Investment Decision
    b. Working Capital Management
    c. Marketing Management
    d. Capital Structure

Define optimum Capital Structure? Discuss the features of optimum Capital Structure.

What are the factors determining Capital Structure decision of a firm?

Dividend Policy

1. Stock dividend is also known as:
a. Scrip Dividend
b. Bonus Shares
c. Right Shares
d. Property Dividend
2. Which of the following is not true about dividend decision?
a. Payment of dividend involves legal as well as financial consideration
b. Dividends can be paid only when there are profits
c. Dividends can be paid when there are losses
d. Stock dividend does not affect liquidity position of a company
3. The dividend irrelevance theorem to share valuation was propounded by:
a. James E. Walter
b. Myron Gordon
c. Modigilani and Miller
d. None of the above
4. The relevance theory of dividend was supported by:
a. Walter
b. Gordon
c. Both of Above
d. None of Above
5. Which one is not an assumption of the Modigilani-Miller (MM) model?
a. There are perfect capital markets
b. Investors do not behave rationally
c. There are no flotation and transactions costs
d. No investors are large enough to affect the market price of shares
6. The dividend-payout ratio is equal to:
a. Dividends per share divided by EPS
b. Dividends per share divided by face value per share
c. Dividends per share divided by market price per share
d. Cost of capital plus dividend yield.
7. 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
8. Which one of the following is not an assumption of Gordon's relevance theory model?
a. Corporate taxes exist
b. The firm is an all equity firm.
c. The rate of return and cost of capital of the firm remains constant
d. The firm has perpetual life

9. Right shares enjoy preferential rights with regard to:
a. Payment of dividend
b. Payment of retained earnings
c. Repayment of Capital
d. None of the above

10. According to Walter, the firm should retain the profits if:
a. $r>k$
b. $r=k$
c. $r<k$
d. None of these

What is Financial Control? Discuss the major tools of Financial Control.

Explain the Modigliani and Miller’s Model on dividend policy.