

MULTIPLE CHOICE QUESTIONS

1. Willian J Baumol's model of Cash Management determines optimum cash level where the carrying cost and transaction cost are:
(a) Maximum (b) Minimum
(c) Medium (d) None of the above
2. In Miller-ORR Model of cash management:
(a) The lower, upper limit, and return point of cash balances are set out
(b) Only upper limit and return point are decided
(c) Only lower limit and return point are decided
(d) None of the above are decided
3. In Miller-ORR Model of cash management:
(a) Upper limit = lower limit + Return point
(b) Upper limit = lower limit + 2(Return point)
(c) Upper limit = lower limit + 3(Return point)
(d) None of the above
4. Of the four costs shown below, which would not be included in the cash budget of an insurance firm?
(a) Depreciation of fixed asset (b) Commission paid to agents
(c) Office salaries (d) Capital cost of a new computer
5. The term cash includes
(a) Cash and Bank Balances (b) All the Current Assets
(c) All the Current Liabilities (d) None of the above
6. Non-cash transactions _____
(a) Form part of cash budget (b) Do not form part of cash budget
(c) May or may not form part of cash budget (d) I cannot say whether they are part of cash budget

7. Which of the following will not affect preparation of cash budget?
- (a) Loan taken by firm (b) Proceeds from asset disposal
(c) Reduction in provision for doubtful debts (d) Cash sales
8. Which of the following is/are motive(s) for holding cash?
1. Transactional Motive
 2. Speculative Motive
 3. Derivative Motive
 4. Contingency Motive
- Select the correct answer from the options given below
- (a) 1, 2, 3 (b) 2, 4, 5
(c) 1, 2, 4 (d) 1, 3, 5
9. The Transaction Motive for holding cash is for
- (a) Safety Cushion (b) Daily Operations
(c) Purchase of Assets (d) Payment of Dividends
10. Baumol's Model of Cash Management attempts to:
- (a) Minimise the holding cost (b) Minimization of transaction cost
(c) Minimization of total cost (d) Minimization of cash balance
11. SK Ltd. has observed its receivable collection pattern to be as follows: 40% in the month of the sale, 45% in the month following the sale, and 13% in the second month following the sale. Sales for the last 3 months of the year were as follows: October? 3,00,000; November, ₹4,50,000 and December, ₹6,25,000. Sales for January are budgeted to be ₹3,75,000. What are the budgeted cash collections for January?
- (a) ₹3,75,000 (b) ₹4,89,750
(c) ₹4,95,750 (d) ₹6,25,000
12. The annual cash requirement of SK Ltd. is ₹10,00,000. The company has marketable securities in lot size of ₹50,000. Cost of conversion of marketable securities per lot is ₹1,000. The company can earn 5% annual yield on its securities. Calculate total cost.
- (a) ₹2 1,000 (b) ₹21,250
(c) ₹18,750 (d) ₹12,500

Answer Key

1. (b)	2. (a)	3. (b)	4. (a)	5. (a)	6. (b)	7. (c)	8. (c)	9. (b)	10. (c)
11. (b)	12. (b)								