

## MULTIPLE CHOICE QUESTIONS

1. Trade credit is a source of:  
(a) Long-term finance  
(b) Medium term finance  
(c) Spontaneous source of finance  
(d) None of the above
2. Working capital is defined as:  
(a) Excess of current assets over current liabilities  
(b) Excess of current liabilities over current assets  
(c) Excess of fixed assets over long term liabilities  
(d) None of the above
3. Working capital is also known as "Circulating capital, fluctuating capital and revolving capital:. The aforesaid statement is;  
(a) Correct  
(b) Incorrect  
(c) Cannot say  
(d) None of the above
4. The basic objectives of Working capital management are:  
(a) Optimum utilization of resources for profitability  
(b) To meet day to day current obligations  
(c) Ensuring marginal return on current assets is always more than cost of capital  
(d) Select any one of the above statements
5. The term Gross Working Capital is known as:  
(a) the investment in current liabilities  
(b) The investment in long-term liability  
(c) The investment in current assets  
(d) None of the above
6. The term net working capital refers to the difference between the current assets minus current liabilities.  
(a) The statement is correct  
(b) The statement is incorrect  
(c) I cannot say  
(d) None of the above

7. The term "Core current assets" was coined by:
- (a) Chore Committee (b) Tandon Committee  
(c) Jilani Committee (d) None of the above
8. The concept operating cycle refers to the average time which elapses between the acquisition of raw materials and the final cash realization. This statement is:
- (a) Correct (b) Incorrect  
(c) Partially true (d) I cannot say
9. As a matter of self-imposed financial discipline can there be a situation of zero working capital now-a-days in some of the professional managed organizations.
- (a) Yes (b) No  
(c) Impossible (d) Cannot say
10. Over trading arises when a business expands beyond the level of funds available. The statement is:
- (a) Incorrect (b) Correct  
(c) Partially correct (d) I cannot say
11. A Conservative Working Capital strategy call for high levels of current assets in relation to sales:
- (a) I agree (b) Do not agree  
(c) I cannot say (d) None of the above
12. The term Working Capital leverage refer to the impact of level of working capital on company's profitability. This measures the responsiveness of ROCE for changes in current assets.
- (a) I agree (b) Do not agree  
(c) The statement is partially true (d) None of the above
13. The term spontaneous source of fiancé refers to the finance which naturally arise in the course of business operations. The statement is:
- (a) Correct (b) Incorrect  
(c) Partially correct (d) I cannot say
14. Under hedging approach to financing of working capital requirements of a firm, each asset in the balance sheet assets side would be offset with a financing instrument of the same approximately maturity. This statement is:
- (a) Incorrect (b) Correct  
(c) Partially correct (d) I cannot say
15. The Bank financing of working capital will generally be in the following form. Cash credit, Overdraft, bill discounting, bills acceptance, line of credit; letter or credit and bank guarantee.
- (a) I agree (b) I do not agree  
(c) I cannot say (d) None of the above

- 16.** A positive working capital means that -
- (a) The company is able to pay-off its long-term liabilities.
  - (b) The company is able to select profitable projects.
  - (c) The company is unable to meet its short-term liabilities.
  - (d) The company is able to pay-off its short-term liabilities.
- 17.** While calculating working capital based on cash cost -
- (a) Depreciation is ignored
  - (b) Non-cash items are not considered
  - (c) Debtors are calculated on the basis of cost of goods sold and not on sale price
  - (d) All of the above
- 18.** Which of the following is correct formula to calculate WIP Conversion Period?
- (a)  $(\text{Annual Cost of Production} \times 365 \text{ days}) \div \text{Average Stock of WIP}$
  - (b)  $(\text{Average Stock of WIP} \times 365 \text{ days}) \div \text{Annual Cost of Sales}$
  - (c)  $(\text{Average Stock of WIP} \times 365 \text{ days}) \div \text{Annual Cost of Production}$
  - (d)  $(\text{Annual Cost of Sales} \times 365 \text{ days}) \div \text{Average Stock of WIP}$
- 19.** Which of the following is determinant of working capital?
- (a) Nature and size of business
  - (b) Manufacturing cycle
  - (c) Credit policy
  - (d) Production policy
- Select the correct answer from the options given below.
- (a) only (1)
  - (b) (1) and (2) only
  - (c) (1), (2) and (3) only
  - (d) (1), (2), (3) and (4)
- 20.** A conservative policy implies
- (a) Greater liquidity and lower risk
  - (b) Greater risk lower liquidity
  - (c) Negligible risk
  - (d) No risk at all with low liquidity
- 21.** Aggressive approach covers those policies -
- (a) Where the firm relies heavily on short term bank finance
  - (b) Seeks to increase dependence on long term financing
  - (c) Both (a) and (b)
  - (d) Neither (a) nor (b)
- 22.** A higher current assets/fixed assets ratio indicates -
- (a) Hedging Approach
  - (b) Conservative Approach
  - (c) Matching/hedging Approach
  - (d) Aggressive Approach

- 23.** An aggressive policy indicates-
- |                                      |                                     |
|--------------------------------------|-------------------------------------|
| (a) higher liquidity and poor risk   | (b) higher risk and poor liquidity  |
| (c) higher risk and higher liquidity | (d) lower risk with lower liquidity |
- 24.** Varies inversely with profitability.
- |                  |                       |
|------------------|-----------------------|
| (a) Liquidity    | (b) Risk              |
| (c) Gross profit | (d) None of the above |
- 25.** Which of the following working capital strategies is the most aggressive?
- (a) Making greater use of short term finance and maximizing net short term asset.  
 (b) Making greater use of long term finance and minimizing net short term asset.  
 (c) Making greater use of short term finance and minimizing net short term asset.  
 (d) Making greater use of long term finance and maximizing net short term asset.
- 26.** Which of the following is a basic principle of finance as it relates to the management of working capital?
- (a) Profitability varies inversely with risk  
 (b) Liquidity moves together with risk  
 (c) Profitability moves together with risk  
 (d) Profitability moves together with liquidity
- 27.** If raw material consumed is ₹8,42,000; cost of production is ₹14,25,000; Stock of raw material & WIP is ₹1,24,000 and ₹72,000 respectively then Raw Material Conversion period will be-  
 Note: 1 Year = 365 days
- |             |             |
|-------------|-------------|
| (a) 54 days | (b) 18 days |
| (c) 29 days | (d) 49 days |
- 28.** Total sales of SK Ltd. are ₹31,248 out of which 25% are cash sales. Closing balance of debtors are ₹9,468 Debtors collection period = ?.  
 Note: 1 Year = 365 days
- |              |              |
|--------------|--------------|
| (a) 163 days | (b) 157 days |
| (c) 148 days | (d) 125 days |
- 29.** Raw material consumption = ₹6,48,000; Raw material purchase = ₹8,42,000; Annual cost of production = ₹14,42,000; Creditors = ₹75,000; Bills payable = ₹25,000; Creditors Payment Period?  
 Note: 1 Year = 360 days
- |             |             |
|-------------|-------------|
| (a) 34 days | (b) 43 days |
| (c) 40 days | (d) 39 days |
- 30.** Operating cycle days of SK Ltd. is 167 days. Other details are as follows:
- |                             |         |
|-----------------------------|---------|
| Raw material stock velocity | 79 days |
| Debtors collection period   | 70 days |
| WIP conversion period       | 36 days |

Finished goods conversion period 29 days

Creditors payment period =?

- (a) 47 days (b) 94 days  
(c) 52 days (d) 59 days

31. Maximum permissible bank finance as per first method of Tandon Committee norms was ₹57,41,813 while current liabilities are reported at 32,50,000. Current assets =?  
(a) ₹1,09,05,750 (b) ₹81,79,313  
(c) ₹1,09,07,550 (d) ₹1,05,09,750
32. If current assets are ₹1,09,05,750 and current liabilities are ₹76,55,750 then maximum permissible bank finance as per first method of Tandon Committee norms is -  
(a) ₹57,41,813 (b) ₹49,29,313  
(c) ₹52,29,813 (d) ₹49,41,813
33. If current assets are ₹1,09,05,750 and current liabilities are ₹76,55,750 then maximum permissible bank finance as per second method of Tandon Committee norms is -  
(a) ₹57,41,813 (b) ₹49,29,313  
(c) ₹52,29,813 (d) ₹49,41,813
34. SK Ltd. submit following figures:  
Current Assets = ₹232.5 lakh; Core current assets ₹30 lakh  
Maximum permissible bank finance as third method of Tandon Committee norms = ₹55.625 lakh  
Working capital in this case is -  
(a) ₹136.25 (b) ₹106.05  
(c) ₹163.25 (d) ₹160.05

#### Answer Key

1. (c)	2. (a)	3. (a)	4. (b)	5. (c)	6. (a)	7. (b)	8. (a)	9. (a)	10. (b)
11. (a)	12. (a)	13. (a)	14. (b)	15. (a)	16. (d)	17. (d)	18. (c)	19. (d)	20. (a)
21. (a)	22. (b)	23. (b)	24. (a)	25. (c)	26. (c)	27. (a)	28. (c)	29. (b)	30. (a)
31. (a)	32. (a)	33. (b)	34. (a)						