

Check Answer Report

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Light Green color Indicates Correct Answer.
Light Red Color Indicates Wrong Answer.

1 While generating Input based ideas for a new project, which of the following information is relevant?

- ☐ Family budget studies
 - ☐ Market studies
 - ☐ Import and Export Statistics
 - ☒ None of these
-

2 Good ideas are generated using various methods such as:

- ☐ Cost reduction
 - ☐ Productivity improvement
 - ☐ Improvement in contribution margin
 - ☒ All of these
-

3 While screening from the various ideas collected, you must consider the following criteria:

- ☐ reasonability of the cost
 - ☐ availability of the raw materials
 - ☐ risk level acceptability
 - ☒ All of these
-

4 You can get good ideas for projects by doing the following:

- ☐ Attending trade and business fairs
 - ☐ Reviewing Import and Export data
 - ☐ Study new technological developments
 - ☒ All of these
-

5 Which of the following is / are the main features of Revenue Expenditure

- ☐ It precedes benefit / utility
 - ☐ It is incurred and benefits are available on recurring basis
 - ☒ It is to use and maintain the assets so created
 - ☐ All of these
-

6 Which of the following is / are the main features of Capital Expenditure

- ☐ It is subject to completion report of the scheme or asset
 - ☐ It requires administrative approval from Competent Authority
 - ☐ It precedes benefit / utility
 - ☒ All of these
-

7 Which of the following are the sources of Secondary Information?

- ☐ Census of India
 - ☐ Plan Reports
 - ☐ Economic Survey
 - ☒ All of these
-

8 If a company uses 60% debt @ rate of 12%, 20% preference @ rate of 10% and balance equity @ 20%, what will it's Weighted Average Cost of Capital will be?

- ☐ 0.14
 - ☐ 0.15
 - ☒ 0.132
 - ☐ None of these
-

9 Harmish set-ups a new Solar Cells manufacturing unit. His company uses 65% debt @ rate of 12.50%, 25% equity @ 23.00%, at what is the maximum rate that is can issue preference shares so that its Weighted Average Cost of Capital does not exceed 15.00%:

- ☐ 0.125
 - ☐ 0.15
 - ☐ 0.1558
 - ☒ 0.1125
-

10 A company intends to invest Rs. 20 crores in a project which earns a rate of return of 20%. Its Weighted Average Cost of Capital of a firm is 13.00%. What is Net return from the project?

- ☐ Rs. 1.30 crores
 - ☒ Rs. 2.60 crores
 - ☐ Rs. 2.40 crores
 - ☐ None of these
-

11 Which key characteristic indicates that every project has a finite start and a finite end?

- ☒ Temporary
 - ☐ Qnique deliverables
 - ☐ Prrogressive Elaboration
 - ☐ All of these
-

12 When any project aims to produce some product, service, or some another result and addressess a problem or need of analyzing before project start is termed as-----

- ☐ Temporary
 - ☒ Qnique deliverables
 - ☐ Prrogressive Elaboration
 - ☐ Development
-

13 The key characteristic -----means that the successive iterations of planning processes result in developing more effective solutions to progress and develop projects.

- ☐ Temporary
 - ☐ Qnique deliverables
 - ☒ Prrogressive Elaboration
 - ☐ projections
-

14 the listed characteristics, a conventional project is-----

- ☐ Purposeful as it has a rational and measurable purchase
 - ☐ Logical as it has a certain life-cycle
 - ☐ Structured as it has interdependencies between its tasks and activities
 - ☒ All of these
-

15 Funding (financing) of long-term infrastructure, industrial projects, and public services using a non-recourse or limited recourse financial structure is called as -----

- ☒ Project Finance
 - ☐ Industry Finance
 - ☐ Infrastructure Finance
 - ☐ long term finance
-

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1 Project Appraisal requires carrying out appraisals under which of the following heads?

- ☐ Technical
 - ☐ Economic
 - ☐ Financial
 - ☒ All of these
-

2 Which of the following is not a part of examination as part of Project Appraisal?

- ☐ Financial
 - ☐ Technical
 - ☒ Commissioning
 - ☐ None of these
-

3 Why is Project Appraisal important?

- ☐ It gets the systems right
 - ☐ It lays the foundation for delivery
 - ☐ It justifies the money to be spent on the project
 - ☒ All of these
-

4 How does Project Appraisal help managers?

- ☐ It makes sure their program benefits organisation
 - ☐ It provides documentation to meet financial and audit requirements
 - ☐ It is consistent and objective in choosing projects
 - ☒ All of these
-

5 Fill in the blank. _____ Appraisal looks into the financial feasibility of the new capital investment proposal or expansion of existing productive facilities.

- ☒ Financial
 - ☐ Market
 - ☐ Economic
 - ☐ Technical
-

6 The Project Team has worked on ideas and inputs from the production team, collected the data, and documented all the data. The project appears viable to the Project Team. What will the Project Team do next?

- ☐ Finalise the contracts with various vendors
 - ☐ Hand over the completed project to the operations
 - ☐ Capitalise the project in the books
 - ☒ Get the project appraised independently preferably from bankers/financers
-

7 State whether True or False. Project Appraisal helps Project Managers to make sure that the project benefits the organisation

- ☒ True
 - ☐ False
-

8 Why is Appraisal an important decision making tool?

- ☒ It ensures that the projects selected for funding are sustainable
 - ☐ It presents the project in a very rosy manner to the financiers
 - ☐ It ensures that the company is in a position to borrow money
 - ☐ It enables managers to generate theoretical knowledge to present to the financiers
-

9 How does a good Appraisal Report help the organisation to get the systems right?

- ☐ It ascertains that the project is beneficial to the nation and the society
 - ☐ It justifies spending money on a project
 - ☒ It ensures that the project application, appraisal and approval functions are separate
 - ☐ None of these
-

10 Project Appraisal is process of assessing the ----- types of the Appraisal Aspects.

- ☐ Organizational Aspects and Technical Aspects
 - ☐ Managerial Aspects & Economic Aspects
 - ☐ Financial Aspects and Marketing and Commercial Aspects
 - ☒ All of these
-

11 The Key aspects of appraisal will be evaluated ----- commencement of Project.

- ☐ during
 - ☒ before
 - ☐ after
 - ☐ simultaneously
-

12 The aspects which help you to see if project is adequately staffed with the structure of the Organization and helps to check Resource, Recruitment, and Training aspects is covered under-----

- ☒ organisational aspects
 - ☐ Managerial aspects
 - ☐ Commercial aspects
 - ☐ Financial aspects
-

13 The aspects help you to assess competency and business knowledge of the promoter's aspects is called as -----

- ☐ organisational aspects
 - ☒ Managerial aspects
 - ☐ Commercial aspects
 - ☐ Financial aspects
-

14 Financial appraisal will also help the organizations to check -----

- ☐ feasibility to spend less

- ☐ feasibility to gain more profits
 - ☒ feasibility of alternatives to spend less and gain more profits
 - ☐ feasibility to sustain the project
-

15 The cost, pricing , Financing and investment v.s profit are the key aspects of -----

- ☐ Economic analysis
 - ☒ Financial Analysis
 - ☐ Infrastructure analysis
 - ☐ Market appraisal
-

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1 While choosing a particular technology, what would an industrialist consider?

- ☐ Ease of absorption
 - ☐ Latest developments
 - ☐ Use by other units
 - ☒ All of these
-

2 Which of the following does not form part of Structures and Civil Works composition?

- ☐ outdoor works
 - ☐ site preparation and developments
 - ☐ buildings and structures
 - ☒ processed industrial materials and components
-

3 Which of the following are types of project charts and layouts?

- ☐ General functional layout
 - ☐ Material flow diagram
 - ☐ Utility layout
 - ☒ All of these
-

4 Fill in the blank. _____ refers to the number of units or volume that can be produced during a given period.

- ☐ Product Mix
 - ☐ Material Inputs
 - ☒ Plant Capacity
 - ☐ Technical Arrangements
-

5 A unit could bankrupt due to which of the following reasons?

- ☐ Higher salaries for the factory workers
 - ☐ Very costly land & building
 - ☒ Undependable supply of basic inputs
 - ☐ All of these
-

6 On which of the following aspects is a Technical Appraisal based upon:

- ☐ Environmental
 - ☐ Plant Capacity
 - ☐ Product Mix
 - ☒ All of these
-

7 Fill in the blank. _____ are some of the scheduling techniques used in the review of the Project

- ☒ Gantt Charts, PERT, CPM, GERT
 - ☐ Cost over-runs
 - ☐ Time over-runs
 - ☐ All of these
-

8 State whether True or False. General functional layouts establish the progress of production from one machine to another with description, location, space required, need for power and utilities and distance from next section.

- ☐ True
 - ☒ False
-

9 Why is there a need nowadays for mass customization?

- ☐ Better profitability of the units
 - ☐ It increases the productivity of the unit
 - ☒ Customer demands are at an all time high
 - ☐ All of these
-

10 _____ refers to the number of units or volume that can be produced during a given period.

- ☐ Product Mix
 - ☐ Material Inputs
 - ☒ Plant Capacity
 - ☐ Technical Arrangements
-

11 How is Technical appraisal important?

- ☐ It looks into the other benefits to the nation as a whole
 - ☐ It ensures that there is a potential market which can be met by the production capacity of the unit.
 - ☒ It facilitates the optimal project formulations in terms of capacity, technology, location, technology, size, etc on.
 - ☐ All of these
-

12 The Full form of ETP is:

- ☐ Enterprise Technology Plan
 - ☐ Enterprise Technology Plant
 - ☐ Effluent Taken for Purification
 - ☒ Effluent Treatment Plant
-

13 State whether True or False. It is better is Manufacturing Lead Time is as close as possible to actual machining and assembly time

- ☒ True
 - ☐ False
-

14 Which of the following is not one of the methods to assess the Competitive status of a unit?

- ☐ Performability

- ☐ Quality
 - ☒ Cost of Production
 - ☐ Throughput
-

15 What is meant by WIP?

- ☐ The ability of the system to respond effectively to change
 - ☐ The hourly/daily production rate which is the reciprocal of production time per unit
 - ☐ The total time to process the product through the manufacturing plant
 - ☒ The quantity of semi finished product currently lying on the factory floor Throughput
-

16 State whether True or False. A higher Work-in-Progress preferred for an efficient manufacturing viz-a-viz, lower Work-in-Progress.

- ☐ True
 - ☒ False
-

17 What is meant by Throughput?

- ☐ The quantity of semi finished product currently lying on the factory floor Throughput
 - ☐ The ability of the system to respond effectively to change
 - ☒ The hourly/daily production rate which is the reciprocal of production time per unit
 - ☐ The total time to process the product through the manufacturing plant
-

18 How will a cargo airline measure its capacity?

- ☐ Seat miles
 - ☒ Tonnes carried
 - ☐ Miles travelled
 - ☐ Number of Persons carried
-

19 How will a passenger airline measure its capacity?

- ☒ Seat miles
 - ☐ Tonnes carried
 - ☐ Miles travelled
 - ☐ Persons carried
-

20 How will a hospital measure its capacity?

- ☐ Number of rooms
 - ☐ Number of faculties
 - ☒ Number of hospital beds
 - ☐ Weight bearing capacity of the building
-

21 How will a hotel measure its capacity?

- ☒ Number of rooms
 - ☐ Number of recreational facilities
 - ☐ Number of beds
 - ☐ All of these
-

22 State whether True or False Total Quality Control (TQC) involves control of quality at source

☐ True

☒ False

23 State whether True or False Maintenance of high quality depends on the integrity of the materials and integrity of manufacturing process.

☒ True

☐ False

24 What is the advantage in using an ES and ERP in a manufacturing company?

☐ They measure the performance of a manufacturing line w.r.t. down time

☐ They measure the flexibility of the system to respond effectively to change

☐ They help produce better quality products

☒ The apply lean production thinking to the whole company

25 State whether True or False. An ERP is a computer program that performs a task normally done by an expert and which in doing so, uses captured, heuristic knowledge

☐ True

☒ False

26 What is the advantage in using an ERP in a manufacturing company?

☒ It helps the system to become flexible to change

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1 State True or False. A blood donation camp or nutrition program for girls is very much relevant under SCBA methology.

- ☒ True
☐ False
-

2 State whether True or False. The primary purpose of any financial institution is to make profit.

- ☐ True
☒ False
-

3 Which of the following are the principal sources of discrepancy between the monetary and social benefits of the project?

- ☐ Merit wants
☐ Taxes and subsidies
☐ Concern for savings
☒ All of these
-

4 Various financial institutions in India carry out Economic Appraisals considering which of the following three aspects?

- ☐ Economic Rate of Return, Effective Rate of Production, Product Resource Cost
☒ Economic Rate of Return, Effective Rate of Production, Domestic Resource Cost
☐ Effective Rate of Return, Economic Rate of Production, Domestic Resource Cost
☐ Effective Rate of Return, Economic Rate of Production, External Resource Cost
-

5 Which of the following is/are the common market imperfections found in developing countries?

- ☐ rationing
☐ prescription of minimum wage rate
☐ foreign exchange regulation
☒ All of these
-

6 State whether True False. Consumers in a developing economy pay more for a commodity under rationing

- ☐ True
☒ False
-

7 State whether True False. Practically, Economic Appraisal done by financial institutions is not very meticulous and precise.

- ☒ True
 - ☐ False
-

8 State whether True False. When imperfections exist, market prices do not reflect social values.

- ☐ True
 - ☒ False
-

9 A type of decision method applied to a project, programme or policy that takes into account a wide range of costs and benefits, denominated in monetary terms or for which a monetary equivalent can be estimated is called as-----

- ☐ Financial Appraisal
 - ☒ Economic appraisal
 - ☐ performane appraisal
 - ☐ Cost appraisal
-

10 Economic appraisal is also a systematic process for examining ----- focusing on assessment of needs, objectives, options, costs, benefits, risks, funding, affordability and other factors relevant to decisions.

- ☐ Use of raw material for project
 - ☐ Usage of manpower deployed
 - ☒ alternative uses of resources,
 - ☐ cost and benefit analysis
-

11 The main types of economic appraisal consists of -----

- ☐ Cost -benefit analysis
 - ☐ Cost effectiveness analysis
 - ☐ Scring and waighting
 - ☒ All of these
-

12 Economic appraisal is a methodology designed to ----- that offer the best value for money (VFM).

- ☐ assist in defining problems
 - ☐ assist in defining problems and finding solutions
 - ☒ assist in defining problems and finding solutions
 - ☐ assist in giving insight to management
-

13 Good economic appraisal leads to better decisions and VFM. It facilitates -----

- ☐ good project management
 - ☒ good project management and project evaluation
 - ☐ good project evaluation
 - ☐ Deciding project efficiency and profitability
-

14 An important aspect of the relationship between appraisal and decision is that -----

- ☐ the scope of the appraisal though not clear, must include whose viewpoint is to be taken

- ☐ it forms linkage between management and appraiser
 - ☒ the scope of the appraisal should be clear, include whose viewpoint is to be taken
 - ☐ the scope of the appraisal should include and decide whose viewpoint is to be taken
-

15 A generic term for economic appraisal, starting with an inventory of all the costs and benefits of each alternative, whatever they are and whoever incurs them is called as -----

- ☒ Cost benefit Analysis
 - ☐ Financial Analysis
 - ☐ structural analysis
 - ☐ General economic analysis
-

16 The main decision rule for CBA is that an activity should be undertaken if the sum of the benefits that result is greater than the sum of the costs of undertaking it or, identically, if its -----

- ☐ net benefit is neutral
 - ☒ net benefit is positive
 - ☐ net benefit is Negative
 - ☐ net benefit is equal to cost incurred
-

17 The techniques in the most common forms used for economic appraisal consists of -----

- ☒ Cost minimisation analysis and Cost effectiveness analysis as well as Cost benefit and Cost utility analysis
 - ☐ Cost benefit analysis
 - ☐ Cost utility analysis
 - ☐ Cost effectiveness analysis
-

18 There is a ----- which differs from the others in that the range of costs and consequences are reported without attempting to aggregate the costs or the health benefits into a single measure.

- ☐ Benefit analysis
 - ☐ cost analysis
 - ☐ project analysis
 - ☒ cost-consequences analysis (cost analysis)
-

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1 Which Method of Demand Forecasting should a steel producer use to forecast demand for his products?

- ☐ Market Analysis
 - ☒ End-Use
 - ☐ Trend
 - ☐ Regression
-

2 Identify from the following statements, one statement which is not concerning to Market analysis

- ☐ Production possibilities and constraints
 - ☐ Consumer behaviour, intentions, motivations, attitudes, preferences and requirements
 - ☐ Extent of competition and market share
 - ☒ Suitability of production process
-

3 Why is Market appraisal important?

- ☒ It can sell the products at the price points such that it can service the interest on loans taken. Even after servicing the loan, there is sufficient surplus for the unit to carry out sustainable operations.
 - ☐ It ensures that the project generates foreign exchange savings
 - ☐ It ensures that the project generates employment
 - ☐ All of these
-

4 The End Use Method is appropriate for predicting demand of products such as:

- ☐ Pins
 - ☐ Packaged food items
 - ☐ White Goods
 - ☒ Caustic Soda
-

5 What is the purpose of Competitive Analysis?

- ☒ determine the strengths and weaknesses of competitors
 - ☐ find out where we are going wrong/right
 - ☐ find out our own strengths and weaknesses
 - ☐ judge our competitors in correct manner
-

6 Fill in with appropriate words. Choice of selecting an appropriate distribution strategy is based on factors such as _____ and internal resources.

- ☐ End-use Method
 - ☐ Regression Method
 - ☒ Pricing Method
 - ☐ Trend Method
-

7 Fill in the blank. _____ deals with the study of the segmented market, product positioning, product promotion and distribution strategies and analysis of the competition.

- ☐ Demand Forecasting
 - ☐ Trend Method
 - ☐ Regression Method
 - ☒ Market Analysis
-

8 The review which is carried out to ascertain that the products manufactured by the project can be sold and its value realized is called as-----

- ☐ Profitability appraisal
 - ☐ Economic appraisal
 - ☐ Financial appraisal
 - ☒ Market appraisal
-

9 Market appraisals are carried out ----- putting a property on the market to give the vendor an idea of what is possible in terms of selling price.

- ☐ Simultaneously
 - ☐ During the process of
 - ☒ before
 - ☐ After
-

**10 In the market appraisal the first thing that should be taken into consideration is that -----
- so that the products that are manufactured can be sold out**

- ☒ whether there are fundamental sales forces as well as the distribution network in the unit itself
 - ☐ whether there are fundamental sales forces in the unit itself
 - ☐ whether there is distribution network in the unit itself
 - ☐ whether there is sufficient product team in the unit itself
-

11 The market appraisal makes sure of the fact that that the project which is in focus has a sales force which is competent enough. Also, it helps in analyzing the ----- so that the products that are being manufactured could be sold effectively.

- ☒ distribution network
 - ☐ production network
 - ☐ production capability
 - ☐ market demand
-

12 The other important factor of understanding market appraisal is that-----, with the help of it, the products can be easily sold at such price points such that it can in a future cover up for the loans that have been taken.

- ☐ checks whether after the loans have been settled down, do still have enough money after the loan has been serviced, the units even have enough of the surplus, so that the further sustainable operations can be carried out effectively.
 - ☐ ensure a potential market that can be met by the unit's total capacity of the production
 - ☐ it provides with a particular strategy which is well thought of so that the sales and the marketing can be carried out efficiently for a longer duration of the time.
 - ☒ All of these
-

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1 Why is Financial Appraisal important?

- ☐ It ensures that the project is able to get a reasonable return on the investment made to carry on sustainable operations
- ☐ It determines the Break-Even Point to find the exact level of sales and production when the unit can Break-even
- ☐ It estimates the cashflows and reasonable level of profit that the unit can make from the operations
- ☒ All of these

2 Which of the following is an advantage of using the IRR technique of discounted cashflow?

- ☐ It is fairly complicated to calculate
- ☐ it is not a measure of absolute profitability
- ☒ It means a firm selecting projects where the IRR exceeds the cost of capital should increase shareholders' wealth.
- ☐ Interpolation only provides an estimate and an accurate estimate requires the use of a spreadsheet programme

3 State whether True False. When a Project is being formulated, after the documentation of data and project Appraisal, the project which has best financial viability will be selected for implementation.

- ☐ True
- ☒ False

4 Which of the following does not form part of the Sources of Funds under Financial Appraisal?

- ☐ Equity Share Capital
- ☐ Term Loans
- ☐ Debenture Capital 4
- ☒ Cash in Bank

5 Find the Net Rate of Return on a new Fertilizer plant; Total Investment is Rs. 7.50 crores; Project earns net profit after depreciation, interest of Rs. 2 crores; Interest Cost of Rs. 0.60 crores. Depreciation is Rs. 0.50 crores

- ☒ 0.2667
- ☐ 0.12
- ☐ 0.1867
- ☐ None of these

6 Aparna is considering setting up a teaching academy with an investment outlay of Rs. 50 lakhs. If the average annual Net Profit after taxes of the company is Rs. 7 lakhs, what is the payback period of the project?

- ☐ Rs. 7.00 years

- ☐ Rs. 3.50 years
 - ☒ Rs. 7.14 years
 - ☐ None of these
-

7 Which of the following is not an advantage of using the IRR technique of discounted cashflow?

- ☒ It is not a measure of absolute profitability
 - ☐ it considers the time value of money
 - ☐ It is based on cash flows not profits
 - ☐ None of these
-

8 MyMusic Stores Ltd has Earnings per Share of Rs. 0.50 and its share Market Price is Rs. 20.00. What is the P/E Ratio of the Company?

- ☐ 20.5
 - ☐ 0.025
 - ☐ 10
 - ☒ 40
-

9 Predict Projects Pvt Ltd has Current Assets of Rs. 3,53,15,500/- and Current Liabilities of Rs. 2,39,50,400/- and Inventories of Rs. 35,50,000. What is Current Ratio of the company?

- ☐ 1.33
 - ☒ 1.47
 - ☐ 1.62
 - ☐ None of these
-

10 What is the Profitability Index of Project A?

- ☐ 1.3
 - ☒ 1.08
 - ☐ 1
 - ☐ 0.91
-

11 What is the Profitability Index of Project B?

- ☐ 0.86
 - ☐ 1
 - ☒ 1.06
 - ☐ 1.23
-

12 What is IRR of Project A?

- ☒ 0.1524
 - ☐ 0.1424
 - ☐ 0.1624
 - ☐ 0.145
-

13 State whether True False. Miscellaneous expenditure is written on the asset side of the Balance sheet.

- ☒ True
- ☐ False

14 State whether True or False. A high debt equity ratio may indicate that the financial stake of the creditors is more than that of the owners.

☒ True

☐ False

15 Which are the sources of cash for an organisation?

☐ Savings Bank account, Current Bank account

☐ Tax not paid to Government

☒ Cash from operations, Sale of machinery, Issue of new shares

☐ All of these

16 Which document is required to be analysed with a view to ascertain, whether the concern is under/overcapitalized, whether the borrowings raised are not out of proportion to its paid-up capital and reserves, how the current liabilities stand in relation to

☐ Cash flow Statement

☒ Balance sheet & P/L account

☐ Only Balance sheet

☐ Only P/L a/c statement

17 One aspect of Financial Appraisal is the -----to implement the project and sources of the same

☒ Assessment of funds required

☐ Assessment revenue generation

☐ Assessment of capital expenditure

☐ Assessment of profitability and losses

18 Which ratio helps in making a quick assessment of profitability, particularly projects with short life?

☐ Internal rate of return

☐ Productivity ratio

☒ Simple rate of Return

☐ Interest coverage ratio

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1 Which of the following is not a valid reason for a firm to avoid creating a capital structure consisting of 100% debt?

- ☒ The payments that a firm must make to service such a high debt level severely restricts the flexibility of managers to make new investments
 - ☐ Firms may want to maintain an 'investment grade' level on all their debts to avoid any adverse reaction from investors in the market
 - ☐ As a firm takes on more debt, there is an increased risk that it will not be able to pay all of its interest in a down year
 - ☐ The debt shield is only applicable up to the level of 50% debt
-

2 Why did MM present their propositions in a simplified framework that did not reflect financial conditions found in the real world?

- ☐ MM argued that increases in equity return balanced any impact from taxes that their propositions failed to address
 - ☐ As professors, MM were wary of confusing their students with rigorous mathematical proofs
 - ☐ MM did not understand the tax implications of interest payments
 - ☒ MM wished to clarify the framework in which they presented their findings on capital structure
-

3 According to MM, what happens to the residual equity when a firm increases the amount of debt it holds?

- ☐ The value of the equity decreases because the residual equity has become less risky
 - ☐ The resulting increase in the firm's WACC decreases the risk of equity
 - ☒ The remaining equity becomes riskier because it must support a larger portion of debt
 - ☐ MM argue that changing the level of debt does not affect any other element of a firm's capital structure, including equity
-

4 State whether the following formula True or False. Capital gearing ratio = Shareholders' funds / (Debentures + Preference share capital)

- ☐ True
 - ☒ False
-

5 What does the Pecking Order Theory state?

- ☐ Pecking Order is the informal greeting to invite business visitors in the company
 - ☒ Companies prioritize their sources of financing according to the law of the least effort
 - ☐ There is a correct order to peck a company's finance portfolio
 - ☐ All of these
-

6 What is meant by Free Cashflow in relevance to Agency Costs?

- ☒ Unless free cash flow is given back to investors, management has an incentive to destroy company value through empire building and perks etc. Increasing leverage imposes financial discipline on

management.

- If debt is risky (e.g., in a growth company), the gain from the project will accrue to debt holders rather than shareholders. Thus, management has an incentive to reject positive NPV projects, even though they have the potential to increase company value
- As Debt-Equity Ratio increases, management can undertake risky (even negative NPV) projects as if the particular project is successful, share holders get all the upside, whereas if it is unsuccessful, debt holders get all the downside.
- All of these
-

7 Which of the following is a reason that companies cannot hold 100% debt?

- Positive views
- No compulsion as such
- Possible Bankruptcy
- All of these
-

8 What is meant by Asset substitution cost in relevance to Agency Costs?

- Unless free cash flow is given back to investors, management has an incentive to destroy company value through empire building and perks etc. Increasing leverage imposes financial discipline on management.
- If debt is risky (e.g., in a growth company), the gain from the project will accrue to debt holders rather than shareholders. Thus, management has an incentive to reject positive NPV projects, even though they have the potential to increase company value
- As Debt-Equity Ratio increases, management can undertake risky (even negative NPV) projects as if the particular project is successful, share holders get all the upside, whereas if it is unsuccessful, debt holders get all the downside.
- All of these
-

9 Which of the Following is not a reason that companies cannot hold 100% debt?

- Negative Action
- Additional Costs
- Possible Bankruptcy
- None of these
-

10 State whether True False. Project financing structure refers to the way a company finances its assets through some combination of equity, debt, or hybrid securities

- True
- False
-

11 Out of the following list, which one of the following statements, if true, would violate the theoretical assumptions of MM proposition I

- A Capital market investment firm has devised a computer model that allows its members to accurately predict the future levels of interest rates
- In a historic agreement, all branches of the Central and State governments agree to abolish the practise of taxation in India
- The United Nations outlaws all tariffs and forbids countries from protecting weak industries within their borders
- Corporations decide to base their managers' pay solely on the degree to which those managers' actions raise stock prices at their firms
-

12 Who among the following has proposed the Modigliani Miller Theorem

- ☐ Francisca Miller
 - ☐ Jennifer Miller
 - ☒ Franco Modigliani
 - ☐ Freddy Modigliani
-

13 The capital structure is the particular combination of ----- used by a company to finance its overall operations and growth.

- ☒ debt and equity
 - ☐ assets and liabilities
 - ☐ income expenditure
 - ☐ receivables and payables
-

14 Equity capital arises from -----in a company and claims to its future cash flows and profits

- ☐ Loan Aailed
 - ☒ ownership shares
 - ☐ ownership of debentures
 - ☐ promoters investment
-

15 Equity capital arises from ownership shares in a company and claims to its future cash flows and profits. Debt comes in the form of bond issues or loans, while equity may come in the form of -----

- ☐ common stock
 - ☐ common stock, preferred stock, or retained earnings
 - ☐ retained earnings
 - ☒ common stock, preferred stock, or retained earnings
-

16 If debt asset ratio is -----would make investors feel better about the company's ability to meet responsibilities even in adverse situations.

- ☒ Lower
 - ☐ Higher
 - ☐ acceptable
 - ☐ Neutral
-

17 If the operating leverage is -----, there are more chances of a business failure, and the company could even go to the extent of bankruptcy.

- ☐ low
 - ☒ high
 - ☐ balanced
 - ☐ medium
-

18 The capital structure of a business also depends on whether the management is conservative or aggressive. A management that is more aggressive----- and therefore, more debt will definitely not be an issue

- ☒ would not be afraid of taking a risk
- ☐ would be afraid of taking a risk,
- ☐ will not raise the debt

☐ will raise the debt

Give Your Comments