

1: Time Value of Money

1	<p>Time value of money indicates that</p> <p>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</p>
2	<p>Time value of money supports the comparison of cash flows recorded at different time period by</p> <p>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.</p>
3	<p>Interest paid (earned) on both the original principal borrowed (lent) and previous interest earned is often referred to as _____.</p> <p>a) present value b) simple interest c) future value d) compound interest</p>
4	<p>If a sum of Rs 1600 gives a simple interest of Rs 252 in 2 years and 3 months , then the rate of interest per annum is</p> <p>(a) 5 % (b) 6 % (c) 7 % (d) None of these</p>
5	<p>What is the total amount accumulated after three years if someone invests Rs 1,000 today with a simple annual interest rate of 5 percent?</p> <p>a) Rs 1,150 b) Rs 1,110 c) Rs 1,150 d) Rs 1,110</p>
6	<p>Interest paid (earned) on only the original principal borrowed (lent) is often referred to as ____</p> <p>a) present value b) simple interest c) future value d) compound interest</p>
7	<p>The C.I on Rs 16000 for 1.5 years at 10 % pa payable half yearly is :</p> <p>a) (A) Rs 2222 (B) Rs 2522 (C) Rs 2500 (D) None of these</p>
8	<p>Compute FV of regular investment of Rs.5000 each at the end of every year for 10 years. Rate of investment for compounding = 10%</p> <p>a) 50000 b) 79687.12 c) 101694 d) None</p>
9	<p>What is the total amount accumulated after three years if someone invests Rs 1,000 today with a compound interest rate of 5 percent?</p>

	<p>a) Rs 1,103 b) Rs 1,158 c) Rs 1,150 d) Rs 1,100</p>
10	<p>You deposit Rs 10,000 with an investment company, which pays 16% interest with quarterly compounding. How much will this deposit grow to in 5 years?</p> <p>a) 11600 b) 21,911.23 c) 12600 d) None</p>
11	<p>You need Rs 2,00,000, 8 years from today for higher education. You can earn 10% p.a. How much do you need to invest each year-end to reach your goal?</p> <p>a) 17488.80 b) 18488.80 c) 25000 d) None</p>
12	<p>Sachin deposited Rs 100000 in his bank for 2 years at simple interest rate of 6 % . How much would be the final value of deposit ?</p> <p>a) (a) Rs 112000 (b) Rs 110200 (c) Rs 108200 (d) Rs 121200</p>
13	<p>In how many years will a sum be double of itself at 10 % simple interest ?</p> <p>a) 7 b) 9 c) 10 d) 12</p>
14	<p>A man saves Rs 200 at the end of every year and lends the money at 5% compound interest. How much will it become at the end of 3 years?</p> <p>a) Rs 565.25 b) Rs 630 c) Rs 662.02 d) Rs 666.50</p>
15	<p>The difference between simple interest and compound interest on a certain sum for 3 years at 5 % per annum is Rs 76.25. The sum is:</p> <p>a) Rs 8000 b) Rs 9000 c) Rs 10000 d) Rs 11000</p>
16	<p>Suppose an investor wants to have Rs 10 million to retire 45 years from now. How much would she have to invest today with an annual rate of return equal to 15 percent?</p> <p>a) Rs 18,561 b) Rs 17,844 c) Rs 20,003 d) Rs 21,345</p>
17	<p>Anshul's father wishes to have Rs 75000 in a bank account when his first college expense being . How much amount his father should deposit now at 6.5 % compounded annually if Anshul is to start college in 8 years hence from now ?</p>

	a) Rs 45360 b) Rs 46360 c) Rs 55360 d) Rs 48360
18	The difference between the compound interest and simple interest on a certain sum at 5 % for 2 years is Rs 1.50 . The sum is : (A) Rs 700 (B) Rs 600 (C) Rs 500 (D) None of these
19	The present population of a town is 140000 . What will be the population after 2 years if it increases 5 % annually ? a) (A) 154400 (B) 150400 (C) 165400 (D) None of these
20	Maggie deposits Rs 10,000 today and is promised a return of Rs 17,000 in eight years. What is the implied annual rate of return? a) 6.86 percent b) 7.06 percent c) 5.99 percent d) 6.07 percent
21	A person's invests Rs 500 at the end of each year with a bank which pays interest at 10% p.a. C.I annually. The amount standing to his credit one year after he has made his yearly investment for the 12 th time is : a) Rs 11764.50 b) Rs10000 c) Rs 12000 d) None of these
22	Give annuity of Rs 100 amounts to Rs 3137.12 at 4.5% p.a. C.I . The number of years will be a) 25 yrs (appx.) b) (20 yrs (appx) c) 22 yrs d) None of these
23	A man borrows Rs 20000 and agrees to pay the borrowed amount in 10 equal installment at the rate of 6% per annum. Find the amount of each installment , the first being paid one year after the money was borrowed. a) Rs 2717.35 b) Rs 2727.35 c) Rs 2737.35 d) None of these
24	To triple Rs 1 million, Mika invested today at an annual rate of return of 9 percent. How long will it take Mika to achieve his goal? a) 15.5 years b) 13.9 years c) 12.7 years d) 10 years
25	A principal of Rs 800 is invested for five years at 4.2% per annum compound, interest, interest being paid at the end of the year. What will be the amount at the end of five years? a) Rs 816.94 b) Rs 4168.00 c) Rs 982.72 d) Rs 4618.83

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26	<p>If a principal of Rs 800 amounts to Rs 1000 after five years of investment, then what annual interest rate is being received?</p> <p>a) 4.56% b) 4.01% c) 6.45% d) 5.23%</p>
27	<p>How long would it take Rs 800 to double in value if the interest rate were 4.2% per compounded annually?</p> <p>a) A.12.4 year b) 15.8 years c) 16.8 years d) 14.6 years</p>
28	<p>We multiple a given future value by this in order to get its present value equivalent.</p> <p>a) Discount factor b) Discount rate c) Discounted value d) Present value</p>
29	<p>In the case of an annuity, the investor:</p> <p>a) Pays a regular fixed amount over a specified time period, then receives a lump sum at the end of that time period b) Receives a lump sum and in return pays regular fixed amounts over a specified time period c) Receives a regular fixed amount over a specified time period, then pays a lump sum at the end of that time period d) Pays a lump sum and in return receives regular fixed amounts over a specified time period</p>
30	<p>The bank pays 5.60%, compounded daily (based on 360 days), on a 9-month certificate of deposit. If you deposit Rs 20,000 you would expect to earn around _____ in interest.</p> <p>a) Rs 840 b) Rs 858 c) Rs 1,032 d) Rs 1,121</p>
31	<p>In 2 years you are to receive Rs 10,000. If the interest rate were to suddenly decrease, the present value of that future amount to you would _____.</p> <p>a) fall b) rise c) remain unchanged d) The correct answer cannot be determined without more information.</p>
32	<p>Assume that the interest rate is greater than zero. Which of the following cash-inflow streams totaling Rs 1,500 would you prefer? The cash flows are listed in order for Year 1, Year 2, and Year 3 respectively.</p> <p>a) Rs 700 Rs 500Rs 300 b) Rs 300 Rs 500Rs 700 c) Rs 500 Rs 500Rs 500 d) Any of the above, since they each sum to Rs 1,500.</p>


33	<p>You are considering borrowing Rs 100,000 for 30 years at a compound annual interest rate of 9 percent. The loan agreement calls for 30 equal annual payments, to be paid at the end of each of the next 30 years. (Payments include both principal and interest.) What is the annual payment that will fully amortize the loan?</p> <p>a) Rs 3,333.33 b) Rs 6,400.30 c) Rs 9,733.63 d) Rs 12,333.33</p>
34	<p>You have just graduated and have decided to purchase a brand new sports car to enjoy your newfound freedom. Your local credit union will provide financing for 60 months at a 9 percent annual rate, compounded monthly. You will give 15 percent of the Rs 26,000 purchase price in cash to the dealer. The credit union will be used to finance the remaining 85 percent of the purchase price with the first payment due 1 month from today. What will be your monthly payment?</p> <p>a) Rs 539.71 b) Rs 458.76 c) Rs 433.33 d) Rs 368.33</p>
35	<p>What is the present value of a Rs 1,000 ordinary annuity that earns 8% annually for an infinite number of periods?</p> <p>a) Rs 80 b) Rs 800 c) Rs 1,000 d) Rs 12,500</p>
36	<p>You expect to deposit the following cash flows at the end of years 1 through 5, Rs 1,000; Rs 4,000; Rs 9,000; Rs 5,000; and Rs 2,000 respectively. What is the future account value at the end of year 6 if you can earn 10% compounded annually?</p> <p>a) Rs 15,633.62 b) Rs 21,000.00 c) Rs 25,178.10 d) Rs 27,695.91</p>
37	<p>Which of the following investment alternatives would provide the greatest ending wealth for your investment?</p> <p>a) 10% compounded daily (360 days). b) 10.5% compounded annually. c) 10.25% compounded quarterly. d) There is not sufficient information to determine the best alternative from the above information.</p>
38	<p>Treasury bills are?</p> <p>a) Issued on a premium basis and pay a fixed annual interest rate b) Issued on a discount basis and mature at par c) Issued on a premium basis and mature at par d) Issued on a discount basis and pay a fixed annual interest rate</p>
39	<p>Nominal Interest Rate is also known as?</p> <p>a) Annual percentage rate b) Effective interest Rate c) Periodic interest rate d) Coupon rate</p>

40	<p>The concept of compound interest refers to?</p> <ul style="list-style-type: none">a) The process of gradually retiring a debt through periodic payments of principal and interestb) The process of servicing a debt with regular interest payments, followed lump sum payment of principal and interest at the end of the loan termc) The process of converting future lump sums and annuities into present values at a stated interest rated) The process of earning interest on an original amount, plus interest on interest previously earned
41	<p>The value of money to be received in the future is _____ the value of the same amount of money in hand today?</p> <ul style="list-style-type: none">a) Higher thanb) Lower thanc) The same asd) None of the above
42	<p>Interest has 3 types?</p> <ul style="list-style-type: none">a) Fixed rate, current rate, market rateb) Market rate, combination rate, fixed ratec) Fixed rate, floating rate, current rated) Fixed rate, floating rate, combination rate
43	<p>A decrease in the supply for loanable funds, holding demand constant, will cause interest rates to?</p> <ul style="list-style-type: none">a) Increaseb) Decreasec) Stay the samed) Not enough information to tell
44	<p>The basic price that equates the demand for and supply of loanable funds in the financial markets is the _____?</p> <ul style="list-style-type: none">a) Interest rateb) yield curvec) Term structured) Cash price
45	<p>In an inflationary period, interest rates have a tendency to?</p> <ul style="list-style-type: none">a) Fallb) Risec) Stay the samed) Act erratically
46	<p>The risk-free interest rate is composed of?</p> <ul style="list-style-type: none">a) An inflation premium and a default risk premiumb) A default risk premium and a maturity risk premiumc) A real rate of interest and a liquidity premiumd) A real rate of interest and an inflation premium

1. Time Value of Money

Q No	Ans
1	a
2	c
3	d
4	c
5	a
6	b
7	b
8	b
9	b
10	b
11	a
12	a
13	c
14	c
15	c
16	a
17	a
18	b
19	a
20	a
21	a
22	b
23	a
24	c
25	c
26	a
27	c
28	a
29	b
30	b
31	b

32	a
33	c
34	b
35	d
36	d
37	d
38	b
39	b
40	d
41	a
42	d
43	c
44	c
45	b
46	d

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2: Capital Budgeting

1	An annual estimated costs of assets uses up every year are included a) depreciation and amortization b) net sales c) net profit d) net income
2	The Time value of money must be considered in total outlay decision because? a) Cash inflows and outflows occur at different point b) Inflation greatly reduce the outflows c) A dollar received in future is more value able than a dollar today d) Cash flows are not known with certainty
3	The span of time within which the investment made for the project will be recovered by the net returns of the project is known as a) Period of return b) Payback period c) Span of return d) None of the above
4	Projects with _____ are preferred a) Lower payback period b) Normal payback period c) Higher payback period d) Any of the above
5	_____ on capital is called 'Cost of Capital'. a) Lower expected return b) Normally expected return c) Higher expected return d) None of the above
6	The values of the future net incomes discounted by the cost of capital are called a) Average capital cost b) Discounted capital cost c) Net capital cost d) Net present values
7	Under Net present value criterion, a project is approved if a) Its net present value is positive b) The funds are unlimited c) Both (A) and (B) d) None of the above
8	The internal Rate of Return (IRR) criterion for project acceptance, under theoretically infinite funds is: accept all projects which have a) IRR equal to the cost of capital b) IRR greater than the cost of capital c) IRR less than the cost of capital d) None of the above

9	Which of the following criterion is often preferred a) Net present value b) Profitability index c) Internal Rate of Return d) All of the above
10	The project is accepted of a) if the profitability index is equal to one b) The funds are unlimited c) If the profitability index is greater than one d) Both (B) and (C)
11	Where capital availability is unlimited and the projects are not mutually exclusive, for the same cost of capital, following criterion is used a) Net present value b) Internal Rate of Return c) Profitability Index d) Any of the above
12	A project is accepted when a) Net present value is greater than zero b) Internal Rate of Return will be greater than cost of capital c) Profitability index will be greater than unity d) Any of the above
13	With limited finance and a number of project proposals at hand, select that package of projects which has a) The maximum net present value b) Internal rate of return is greater than cost of capital c) Profitability index is greater than unity d) Any of the above
14	A project may be regarded as high risk project when a) It has smaller variance of outcome but a high initial investment b) It has larger variance of outcome and high initial investment c) It has smaller variance of outcome and a low initial investment d) It has larger variance of outcome and low initial investment
15	Process that involves decision making with respect to investment in fixed asset? a) Valuation b) Breakeven analysis c) Capital budgeting d) Material management decision
16	A project whose cash flows are more than capital invested for rate of return then net present value will be a) positive b) independent c) negative d) zero

17	In mutually exclusive projects, project which is selected for comparison with others must have a) higher net present value b) lower net present value c) zero net present value d) all of the above
18	Other factors held constant, but lesser project liquidity is because of a) shorter payback period b) greater payback period c) less project return d) greater project return
19	In independent projects evaluation, results of internal rate of return and net present value lead to a) cash flow decision b) cost decision c) same decisions d) different decisions
20	Payback period in which an expected cash flows are discounted with help of project cost of capital is classified as a) discounted payback period b) discounted rate of return c) discounted cash flows d) discounted project cost
21	What do we call a formal comparison of the actual costs and benefits of a project with original estimates? a) Post-completion audit. b) Feedback audit. c) Cost-benefit analysis. d) Business scorecard report.
22	A project whose acceptance does not prevent or require the acceptance of one or more alternative projects is referred to as _____. a) a mutually exclusive project b) an independent project c) a dependent project d) a contingent project
23	When operating under a single-period capital-rationing constraint, you may first want to try selecting projects by descending order of their _____ in order to give yourself the best chance to select the mix of projects that adds most to firm value. a) profitability index (PI) b) net present value (NPV) c) internal rate of return (IRR) d) payback period (PBP)
24	An NPV profile for a single project _____. a) displays Fisher's rate of intersection b) is generally upward sloping c) displays the expected NPV for a project at a variety of different discount rates d) None of the above answers are

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25	A project whose acceptance precludes the acceptance of one or more alternative projects is referred to as _____. a) a mutually exclusive project. b) an independent project. c) a dependent project. d) a contingent project.
26	An uncovered cost at start of year is Rs 300, full cash flow during recovery year is Rs 650 and prior years to full recovery is 4 then payback would be a) 3.46 years b) 2.46 years c) 5.46 years d) 4.46 years
27	Present value of future cash flows is Rs 2000 and an initial cost is Rs 1100 then profitability index will be a) 0.55 b) 1.82 c) 0.55 d) 0.0182
28	Situation in which firm limits expenditures on capital is classified as a) optimal rationing b) capital rationing c) marginal rationing d) transaction rationing
29	If net present value is positive then profitability index will be a) greater than two b) equal to c) less than one d) greater than one
30	The method of investment appraisal which calculates that rate of discount which makes net present value = 0 for any project, is called a) The reducing balance method b) The payback period c) The internal rate of return d) The average rate of return
31	The straight line method of calculating depreciation: a) Reduces the value of capital by the same absolute amount each year b) Reduces the value of capital by the same fraction each year c) Reduces the value of capital by an amount related to the interest rate expected for each year d) Reduces the value of capital by the same percentage each year
32	A profitability index (PI) of .92 for a project means that _____. a) the project's costs (cash outlay) are (is) less than the present value of the project's benefits b) the project's NPV is greater than zero c) the project's NPV is greater than 1 d) the project returns 92 cents in present value for each current dollar invested (cost)

33	<p>The LMN Corporation is considering an investment that will cost Rs 80,000 and have a useful life of 4 years. During the first 2 years, the net incremental after-tax cash flows are Rs 25,000 per year and for the last two years they are Rs 20,000 per year. What is the payback period for this investment?</p> <p>a) 3.2 years. b) 3.5 years. c) 4.0 years. d) Cannot be determined from this information.</p>
34	<p>Assume that a firm has accurately calculated the net cash flows relating to two mutually exclusive investment proposals. If the net present value of both proposals exceed zero and the firm is not under the constraint of capital rationing, then the firm should _____.</p> <p>a) calculate the IRRs of these investments to be certain that the IRRs are greater than the cost of capital b) compare the profitability index of these investments to those of other possible investments c) calculate the payback periods to make certain that the initial cash outlays can be recovered within a appropriate period of time d) accept the proposal that has the largest NPV since the goal of the firm is to maximize shareholder wealth and, since the projects are mutually exclusive, we can only take one</p>
35	<p>Shikshawala.com, has estimated that a proposed project's 8-year net cash benefit will be Rs 4,000 per year for years 1 through 8, with an additional terminal benefit of Rs 8,000 at the end of the eighth year. Assuming that these cash inflows satisfy exactly Bulging's required rate of return of 8 percent, the project's initial cash outflow is closest to which of the following four possible answers?</p> <p>a) Rs 27,309 b) Rs 25,149 c) Rs 14,851 d) Rs 40,000</p>
36	<p>Which of the following statements regarding cash flow patterns (for time periods 0, 1, 2, 3, and 4) is correct?</p> <p>a) The sequence of -Rs 100, Rs 50, Rs 40, Rs 60, and Rs 50 is a nonconventional cash flow pattern. b) The sequence of -Rs 100, Rs 600, -Rs 1,100, Rs 600, and Rs 20 have at most two internal rates of return. c) The sequence of +Rs 100, -Rs 1,100, and Rs 1,600 is a conventional cash flow pattern. d) The sequence of -Rs 50, Rs 50, Rs 70, Rs 60, and -Rs 150 has at most two internal rates of return.</p>
37	<p>In cases where capital must be rationed, a firm should rank projects according to their</p> <p>a. net present values. b. internal rates of return. c. profitability indexes. d. external rates of return.</p>
38	<p>Which of the following statements is correct regarding the internal rate of return (IRR) method</p> <p>a) Each project has a unique internal rate of return. b) As long as you are not dealing with mutually exclusive projects, capital rationing, or</p>

	<p>unusual projects having multiple sign changes in the cash-flow stream, the internal rate of return method can be used with reasonable confidence.</p> <p>c) The internal rate of return does not consider the time value of money.</p> <p>d) The internal rate of return is rarely used by firms today because of the ease at which net present value is calculated.</p>
39	<p>Which of the following is not a potential for a ranking problem between two mutually exclusive projects?</p> <p>a) The projects have unequal lives that differ by several years.</p> <p>b) The costs of the two projects differ by nearly 30%.</p> <p>c) The two projects have cash flow patterns that differ dramatically.</p> <p>d) One of the mutually exclusive projects involves replacement while the other involves expansion.</p>
40	<p>An NPV profile for a single project _____.</p> <p>a) displays Fisher's rate of intersection</p> <p>b) is generally upward sloping</p> <p>c) displays the expected NPV for a project at a variety of different discount rates</p> <p>d) None of the above answers are</p>
41	<p>Two mutually exclusive projects are being considered. Neither project will be repeated again in the future after their current lives are complete. There exists a potential problem though -- the expected life of the first project is one year and the expected life of the second project is three years. This has caused the NPV and IRR methods to suggest different project preferences. What technique can be used to help make a better decision in this scenario?</p> <p>a) Rely on the NPV method and make your choice as it will tell you which one is best.</p> <p>b) Use the common-life technique to replicate the one-year project three times and recalculate the NPV and IRR for the one-year project.</p> <p>c) Ignore the NPV technique and simply choose the highest IRR since managers are concerned about maximizing returns.</p> <p>d) In this situation, we need to rely on the profitability index (PI) method and choose the one with the highest PI.</p>
42	<p>To the nearest rupee, what is the net present value of a replacement project whose cash flows are -Rs 104,000; Rs 34,444; Rs 39,877; Rs 25,000; and Rs 52,800 for years 0 through 4, respectively? The firm has decided to assume that the appropriate cost of capital is 10% and the appropriate risk-free rate is 6%.</p> <p>a) Rs 15,115</p> <p>b) Rs 26,798</p> <p>c) Rs 33,346</p> <p>d) Rs 48,121</p>
43	<p>To estimate an unknown number that lies between two known numbers is known as _____?</p> <p>(a) Capital rationing</p> <p>(b) Capital budgeting</p> <p>(c) Interpolation</p> <p>(d) Amortization</p>
44	<p>Indifference criteria when BCR (Benefit Cost Ratio)?</p> <p>(a) $BCR > 1$</p> <p>(b) $BCR = 1$</p> <p>(c) $BCR < 1$</p>

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	(d) None of above
45	<p>A project costs Rs 16,000. The estimated annual cash inflows during its 3 year life are Rs 8,000, Rs 7,000 and Rs 2,000 respectively. What will be the pay-back period?</p> <p>(a) 2 years (b) 2.5 years (c) 3 years (d) 4 years</p>
46	<p>A project has the following cash inflows Rs 34,444; Rs 39,877; Rs 25,000; and Rs 52,800 for years 1 through 4, respectively. The initial cash outflow is Rs 104,000. Which of the following four statements is correct concerning the project internal rate of return (IRR)?</p> <p>a) The IRR is less than 10%. b) The IRR is greater than or equal to 10%, but less than 14%. c) The IRR is greater than or equal to 14%, but less than 18%. d) The IRR is greater than or equal to 18%.</p>
47	<p>You must decide between two mutually exclusive projects. Project A has cash flows of -Rs 10,000; Rs 5,000; Rs 5,000; and Rs 5,000; for years 0 through 3, respectively. Project B has cash flows of -Rs 20,000; Rs 10,000; Rs 10,000; and Rs 10,000; for years 0 through 3, respectively. The firm has decided to assume that the appropriate cost of capital is 10% for both projects. Which project should be chosen? Why?.</p> <p>a) A; Project A's NPV > Project B's NPV. b) A or B; Makes no difference which you choose because the IRR for A is identical to the IRR for B and both IRRs are greater than 10 percent, the cost of capital. c) B; Project B's NPV > Project A's NPV. d) Neither A nor B; The NPVs of both projects are negative.</p>
48	<p>There are two mutually exclusive projects that have different lives. Project A has a 4-year life and Project B has a 5-year life. In replacement chain analysis, the earliest common life will occur when Project A is replicated _____ times and Project B is replicated _____ times.</p> <p>a) 5; 4 b) 4; 5 c) 20; 20 d) It is not possible to determine the answers for this problem.</p>
49	<p>A project whose acceptance requires the acceptance of one or more alternative projects is referred to as _____.</p> <p>a) a mutually exclusive project b) an independent project c) a dependent project d) None of the above are</p>
50	<p>In proper capital budgeting analysis we evaluate incremental _____ cash flows..</p> <p>a) accounting b) operating c) before-tax d) financing</p>

51	<p>The estimated benefits from a capital budgeting project are expected as cash flows rather than income flows because _____.</p> <p>a) it is more difficult to calculate income flows than cash flows b) it is cash, not accounting income, that is central to the firm's capital budgeting decision c) this is required by the accounting profession d) this is required by the Internal Revenue Service (IRS) and enforced through filings with the Securities and Exchange Commission (SEC)</p>
52	<p>What is the depreciable basis?</p> <p>a) It is the cost of capital (both debt and equity) that can be depreciated and the cost spread over multiple years of the project. b) It is the cost of debt (interest) that can be depreciated and the cost spread over multiple years of the project. c) It is the fully installed cost of an asset that taxing authorities allow to be written off for tax purposes. d) It is the cost of all items expended prior to the decision to accept a project and are added to the cost of the asset and written off for tax purposes.</p>
53	<p>In estimating "after-tax incremental operating cash flows" for a project, you should include all of the following except _____.</p> <p>a) changes in costs due to a general appreciation in those costs b) the amount (net of taxes) that we could realize from selling a currently unused building of ours that we intend to use for our project c) changes in working capital resulting from the project, net of spontaneous changes in current liabilities d) costs that have previously been incurred that are unrecoverable</p>
54	<p>All of the following influence capital budgeting cash flows except _____.</p> <p>a) choice of depreciation method for tax purposes b) economic length of the project c) projected sales (revenues) for the project d) sunk costs of the project</p>
55	<p>The basic capital budgeting principles involved in determining relevant after-tax incremental operating cash flows require us to _____.</p> <p>a) include sunk costs, but ignore opportunity costs b) include opportunity costs, but ignore sunk costs c) ignore both opportunity costs and sunk costs d) include both opportunity and sunk costs</p>
56	<p>Interest payments, principal payments, and cash dividends are _____ the typical budgeting cash-flow analysis because they are _____ flows..</p> <p>a) included in; financing b) excluded from; financing c) included in; operating d) excluded from; operating.</p>
57	<p>What is an example of a capitalized expenditure?</p> <p>a) Funds spent last year to renovate a building that could be used to house a new project that is currently being evaluated. b) Installation costs necessary to use a machine that was just purchased.</p>

	<p>c) The necessary increase in inventories needed to support a project that is currently being implemented.</p> <p>d) All of the above are examples of capitalized expenditures.</p>
58	<p>Which of the following is least likely to be part of the calculation of the terminal-year incremental net cash flow for an energy-related expansion project?</p> <p>a) An initial working capital investment is now returned as an additional cash inflow.</p> <p>b) Disposal/reclamation costs.</p> <p>c) Capitalized expenditures.</p> <p>d) Salvage value of any sold or disposed assets.</p>
59	<p>X Ltd is considering the purchase of a new project with a four-year life. The depreciable basis is Rs 100,000 and requires Rs 20,000 of additional working capital. The project will generate Rs 87,000 of additional revenue with Rs 50,000 of additional operating expenses for each year of the four-year project. For tax purposes, the equipment falls into the three-year property class using MACRS percentages. The company is subject to a marginal tax rate of 40%. The salvage value at the end of the fourth year is expected to be Rs 5,000. The incremental net cash flow for the first year of the project is closest to which of the four suggested answers below?</p> <p>a) Rs 37,128</p> <p>b) Rs 35,862</p> <p>c) Rs 30,798</p> <p>d) Rs 35,532</p>
60	<p>Shikshawala.com is considering the purchase of a new project with a four-year life. The depreciable basis is Rs 100,000 and requires Rs 20,000 of additional working capital. The project will generate Rs 87,000 of additional revenue with Rs 50,000 of additional operating expenses for each year of the four-year project. For tax purposes, the equipment falls into the three-year property class using MACRS percentages. The company is subject to a marginal tax rate of 40%. The salvage value at the end of the fourth year is expected to be Rs 5,000. The initial cash outflow for the project is closest to which of the four suggested answers below?</p> <p>a) Rs 120,000</p> <p>b) Rs 100,000</p> <p>c) Rs 26,466</p> <p>d) You cannot determine the initial cash outflow from this information.</p>
61	<p>Which of the following is an appropriate way to measure cash flows?</p> <p>a) Treat sunk cost as a negative cash flow</p> <p>b) Consider only incremental costs and revenues</p> <p>c) Consider only before-tax cash flows</p> <p>d) All of the above.</p>
62	<p>The process of planning expenditures that will influence the operation of a firm over a number of years is called</p> <p>a) investment.</p> <p>b) capital budgeting.</p> <p>c) net present valuation.</p> <p>d) dividend valuation.</p>
63	<p>Which of the following is an example of a capital investment project?</p> <p>a) Replacement of worn out equipment</p> <p>b) Expansion of production facilities</p> <p>c) Development of employee training programs</p> <p>d) All of the above are examples of capital investment projects.</p>

1. Capital Budgeting

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

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32	d
33	b
34	d
35	a
36	d
37	c
38	b
39	d
40	c
41	a
42	a
43	c
44	b
45	b
46	c
47	c
48	a
49	c
50	b
51	b
52	c
53	d
54	d
55	b
56	b
57	b
58	c
59	d
60	a
61	b
62	b
63	d

3: Capital Budgeting – Risk Analysis

1	<p>The coefficient of variation of net present value measures the</p> <ol style="list-style-type: none"> total risk of the project relative risk of the project highest expected value of net present value market risk of the project
2	<p>The probability in subsequent periods that is conditioned on what has occurred earlier is referred to as the</p> <ol style="list-style-type: none"> initial probability conditional probability joint probability None of the above answers are
3	<p>What is the expected value of NPV (to the nearest Rupee) for the following situation? The firm expects an NPV of Rs 10,000 if the economy is exceptionally strong (40% probability), an NPV of Rs 4,000 if the economy is normal (40% probability), and an NPV of -Rs 2,000 if the economy is exceptionally weak (20% probability).</p> <ol style="list-style-type: none"> Rs 5,600 Rs 5,200 Rs 4,000 None of the above answers are
4	<p>What technique is best used when cash flows are related to cash flows in previous periods?</p> <ol style="list-style-type: none"> Cash flow analysis. Risk aversion analysis. Probability-tree analysis. None of the above are
5	<p>An analysis of what happens to the estimate of the net present value when you examine a number of different likely situations is called _____ analysis.</p> <p>A. forecasting B. scenario C. sensitivity D. Simulation</p>
6	<p>When using a probability tree approach, we discount the various cash flows to their present value at</p> <ol style="list-style-type: none"> the firm's weighted-average cost of capital the project's required rate of return. the risk-free rate. the after-tax cost of the firm's long-term debt.
7	<p>A _____ approach to examining project risk occurs when the manager applies a probability distribution to factors such as market size, selling price, fixed and variable costs, and the useful life of the project. The manager then runs a computer program to determine the project worth by randomly selecting values for each variable, within the limits assigned. This is done numerous times to generate a complete risk-return analysis.</p> <ol style="list-style-type: none"> Simulation Probability-Tree Firm-Portfolio

d. Market Risk	
8	A _____ approach to examining project risk occurs when cash flows are arranged such that a cash flow in one period leads to several possible cash flow outcomes in the subsequent period. Each individual cash flow in the subsequent period then leads to several possible cash flow outcomes in its subsequent period. This process continues numerous times to generate a complete risk-return graphic. a. simulation b. probability-tree c. firm-portfolio d. market risk
9	If two projects are completely and positively linearly dependent (or positively related), the measure of correlation between them is a. 0 b. +.5 c. +1 d. -1
10	The probability associated with the first portion of a complete branch of the probability tree is referred to as the _____. a. initial probability b. conditional probability c. joint probability d. None of the above answers are
11	Managerial (real) options _____. a. generally act to reduce a project's worth because of the riskiness involved b. enhance the basic NPV to give the actual expected project worth c. can be bought and sold on the financial exchanges d. can take on negative, zero, or positive values; therefore, the manager needs to be careful and avoid some managerial options
12	The probability that a particular sequence of cash flows might occur is referred to as the _____. a. initial probability b. conditional probability c. joint probability d. None of the above answers are
13	Probability-tree analysis is best used when cash flows are expected to be a) independent over time. b) risk-free. c) related to the cash flows in previous periods. d) known with certainty.
14	Risk in Capital budgeting implies that the decision-maker knows _____ of the cash flows. a) Variability b) Probability c) Certainty d) None of the above
15	In Certainty-equivalent approach, adjusted cash flows are discounted at: a) Accounting Rate of Return

	<ul style="list-style-type: none"> b) Internal Rate of Return c) Hurdle Rate d) Risk-free Rate
16	<p>Risk in Capital budgeting is same as:</p> <ul style="list-style-type: none"> a) Uncertainty of Cash flows b) Probability of Cash flows c) Certainty of Cash flows d) Variability of Cash flows
17	<p>Which of the following is a risk factor in capital budgeting?</p> <ul style="list-style-type: none"> a) Industry specific risk factors b) Competition risk factors c) Project specific risk factors d) All of the above
18	<p>In Risk-Adjusted Discount Rate method, the normal rate of discount is:</p> <ul style="list-style-type: none"> a) Increased b) Decreased c) Unchanged d) None of the above
19	<p>In Risk-Adjusted Discount Rate method, which one is adjusted?</p> <ul style="list-style-type: none"> a) Cash flows b) Life of the proposal c) Rate of discount d) Salvage value
20	<p>NPV of a proposal, as calculated by RADR and CE Approach will be:</p> <ul style="list-style-type: none"> a) Same b) Unequal c) Both (a) and (b) d) None of (a) and (b)
21	<p>Risk of a Capital budgeting can be incorporated</p> <ul style="list-style-type: none"> a) Adjusting the Cash flows b) Adjusting the Discount Rate c) Adjusting the life d) All of the above
22	<p>Which element of the basic NPV equation is adjusted by the RADR?</p> <ul style="list-style-type: none"> a) Denominator b) Numerator c) Both d) None
23	<p>In CE Approach, the CE Factors for different years are:</p> <ul style="list-style-type: none"> a) Generally increasing b) Generally decreasing c) Generally same

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	d) None of the above
24	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
25	In Sensitivity Analysis, the emphasis is on assessment of sensitivity of a) Net Economic Life b) Net Present Value c) Both (a) and (b) d) None of (a) and (b)
26	Most Sensitive variable as given by the Sensitivity Analysis should be: a) Ignored b) Given Least important c) Given the maximum importance d) None of the above
27	Concept of joint probability is used in case of: a) Independent Cashflows b) Uncertain Cashflows c) Dependent Cashflows d) Certain Cashflows
28	Decision-tree approach is used in: a) Proposals with longer life b) Sequential decisions c) Independent Cashflows d) Accept-Reject Proposal
29	Probability-tree analysis is best used when cash flows are expected to be a) independent over time. b) risk-free. c) related to the cash flows in previous periods. d) known with certainty.


1	B
2	B
3	B
4	C
5	B
6	A
7	A
8	B
9	C
10	A

11	B
12	C
13	C
14	B
15	D
16	D
17	D
18	A
19	C
20	B
21	D
22	A
23	B
24	C
25	B
26	C
27	C
28	B
29	C

4: Leasing

1	<p>A/An _____ is an agreement that provides the lessee with use of an asset on a period-by-period basis.</p> <p>a) financial lease b) operating lease c) sale and leaseback d) direct lease</p>
2	<p>_____ lease is a lease where the lessee maintains and insures the leased asset rather than the lessor in a full-service lease.</p> <p>a) A financial b) An operating c) A net d) None of the above answers are correct.</p>
3	<p>A leveraged lease is a three-sided agreement among the following:</p> <p>a) lessee, lessor and lender b) b. lessor, commercial bank, and insurance company c) a and b. d) None of the above</p>
4	<p>One difference between a financial lease and operating lease is that:</p> <p>a) there is a often a call option in a financial lease. b) there is often an option to buy in an operating lease. c) an operating lease is often cancellable by the lessee. d) a financial lease is often cancellable by the lessee.</p>
5	<p>Which one of the following is NOT a way in which a lease could be terminated?</p> <p>a) Abatement b) Surrender c) Expiry d) Merger</p>
6	<p>A _____ represents any restriction imposed on a borrower by a lender and would be part of the loan agreement.</p> <p>a) negative pledge clause b) covenant c) loan agreement d) general routine provision</p>
7	<p>A _____ forbids the future pledging or mortgaging of any of the borrower's assets.</p> <p>a) negative pledge clause b) covenant c) loan agreement d) general routine provision</p>
8	<p>_____ lease refers to a short-term lease that is often cancelable. For example, a lease for office space represents this type of lease where the lease life is less than the useful life of the asset.</p> <p>a) A financial</p>

	<ul style="list-style-type: none"> b) An operating c) A net d) None of the above answers are correct.
9	<p>Which of the following is not a type of financial lease arrangement?</p> <ul style="list-style-type: none"> a) Sale and leaseback b) Indirect leasing c) Leveraged leasing d) All of the above answers are types of financial lease arrangements.
10	<p>A _____ allows the borrower to have credit up to some maximum amount over a specific period, but the notes are usually 90 days and allow the company to renew or borrow additionally.</p> <ul style="list-style-type: none"> a) term loan b) revolving credit agreement c) medium-term note d) commitment fee
11	<p>With a capital lease, the amount recorded on the asset side of the balance sheet is _____.</p> <ul style="list-style-type: none"> a) the current fair market value of the asset being leased b) the current fair market value of the asset being leased less the expected residual value c) the present value of the minimum lease payments over the lease period d) the present value of the maximum lease payments over the lease period
12	<p>Which of the following statements is most correct as it relates to the recording of a capital lease?</p> <ul style="list-style-type: none"> a) The capital lease is shown on the lessee's balance sheet as an asset and amortized over the asset's useful life. b) The capital lease is listed as an asset on the lessor's balance sheet and amortized over lease term. c) A capital lease is listed as an asset on the lessee's balance sheet and must be amortized over the lease period. d) A capital lease is listed as an asset on the lessee's balance sheet and must be amortized over the asset's useful life.
13	<p>A _____ specifies all of the terms of a loan and the obligations of the borrower.</p> <ul style="list-style-type: none"> a) negative pledge clause b) covenant c) loan agreement d) general routine provision
14	<p>_____ lease is a long-term lease that is not cancelable and its life often matches the useful life of the asset.</p> <ul style="list-style-type: none"> a) A financial b) An operating c) A net d) None of the above answers are correct.
15	<p>Which of the following are essential characteristics of a lease?</p> <ul style="list-style-type: none"> a) Certainty of term, exclusive possession, and rent b) Certainty of term, exclusive possession, and creation by deed

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	<p>c) Certainty of term and exclusive possession</p> <p>d) Exclusive possession only</p>
16	<p>Which one of the following statements is FALSE?</p> <p>a. No certainty of term can exist where a lease has been created for the duration of someone's lifetime.</p> <p>b. No certainty of term can exist where the term of the lease is liable to a premature end.</p> <p>c. Certainty of term requires a certain start date and a certain maximum duration.</p> <p>d. d) Certainty of term will not be defeated by virtue of the fact that possession under the lease is discontinuous.</p>
17	<p>Which one of the following statements is TRUE?</p> <p>a) All leases created for less than three years in duration will be legal.</p> <p>b) A lease granted over registered land of over seven years in duration will be valid provided it has been created by deed.</p> <p>c) Where the grant of a lease has failed to become legal for lack of formalities, it may be equitable instead provided it amounts to a specifically enforceable valid contract.</p> <p>d) Where a lease has been created and circumstances are such that it could be seen as both legal and equitable in status, the position at law will prevail.</p>
18	<p>Which of the following leases would least likely be classified as an operating lease by the lessee?</p> <p>a. The lease term is 5 years and the economic life of the leased asset is 8 years.</p> <p>b. Ownership of the leased asset reverts to the lessor at the end of the lease term.</p> <p>c. The agreement permits the lessee to buy the leased asset for one dollar at the end of the lease term.</p> <p>d. The fair value of the leased asset is Rs 20 million and the present value of the lease payments is Rs 13 million.</p>

1	b
2	c
3	a
4	c
5	a
6	b
7	a
8	b
9	b
10	b
11	c
12	c
13	c
14	a
15	c

16	B
17	c
18	C

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5: Cost of Capital

1	<p>The overall (weighted average) cost of capital is composed of a weighted average of _____.</p> <p>a) the cost of common equity and the cost of debt b) the cost of common equity and the cost of preferred stock c) the cost of preferred stock and the cost of debt d) the cost of common equity, the cost of preferred stock, and the cost of debt</p>
2	<p>What is the overall (weighted average) cost of capital in the following situation? The firm has Rs 10 million in long-term debt, Rs 2 million in preferred stock, and Rs 8 million in common equity -- all at market values. The before-tax cost for debt, preferred stock, and common equity forms of capital are 8%, 9%, and 15%, respectively. Assume a 40% tax rate.</p> <p>a) 6.40% b) 6.54% c) 9.30% d) 10.90%</p>
3	<p>For which of the following costs is it generally necessary to apply a tax adjustment to a yield measure?</p> <p>a) Cost of debt. b) Cost of preferred stock. c) Cost of common equity. d) Cost of retained earnings.</p>
4	<p>Which of the following is not a recognized approach for determining the cost of equity?</p> <p>a) Dividend discount model approach. b) Before-tax cost of preferred stock plus risk premium approach. c) Capital-asset pricing model approach. d) Before-tax cost of debt plus risk premium approach.</p>
5	<p>To compute the required rate of return for equity in a company using the CAPM, it is necessary to know all of the following EXCEPT:</p> <p>a) the risk-free rate. b) the beta for the firm. c) the earnings for the next time period. d) the market return expected for the time period.</p>
6	<p>In weighted average cost of capital, a company can affect its capital cost through</p> <p>a) policy of capital structure b) policy of dividends c) policy of investment d) all of the above</p>
7	<p>Cost of common stock is 13% and bond risk premium is 5% then bond yield would be</p> <p>a) 19 b) 0.026 c) 0.08 d) 0.18</p>
8	<p>Retention ratio is 0.60 and return on equity is 15.5% then growth retention model would be</p> <p>a) 0.149</p>

	<p>b) 0.2584 c) 0.161 d) 0.093</p>
9	<p>Stock selling price is Rs 45, an expected dividend is Rs 10 and an expected growth rate is 8% then cost of common stock would be</p> <p>a) 55 b) 58 c) 53 d) 0.3022</p>
10	<p>We can use the CAPM and a proxy firm to estimate the required rate of return on a project. Sometimes, however, it is necessary to adjust the beta of the proxy company for differences in capital structure between our firm and the proxy firm. Assuming that the proxy firm has long-term debt in its capital structure, the unlevered beta of the proxy firm will be _____ its measured (levered) beta.</p> <p>a) lower than b) higher than c) higher or lower than d) identical to</p>
11	<p>.Stock selling price is Rs 85, an expected dividend is Rs 16 and an expected growth rate is 9% then cost of common stock would be</p> <p>a) 55 b) 0.278 c) 53 d) 0.302</p>
12	<p>A type of beta which incorporates about company such as changes in capital structure is classified as</p> <p>a) industry beta b) market beta c) subtracted beta d) fundamental beta</p>
13	<p>Dividend per share is Rs 18 and sell it for Rs 122 and floatation cost is Rs 4 then component cost of preferred stock will be</p> <p>a) 0.1525 b) 0.1525 times c) 15.25 d) 0.001525</p>
14	<p>In weighted average capital, capital structure weights estimation does not rely on value of</p> <p>a) investors equity b) market value of equity c) book value of equity d) stock equity</p>

15	<p>During planning period, a marginal cost for raising a new debt is classified as</p> <ul style="list-style-type: none">a) debt costb) relevant costc) borrowing costd) embedded cost
16	<p>Interest rates, tax rates and market risk premium are factors which an/a</p> <ul style="list-style-type: none">a) industry cannot controlb) industry cannot controlc) firm must controld) firm cannot control
17	<p>For each component of capital, a required rate of return is considered as</p> <ul style="list-style-type: none">a) component costb) evaluating costc) asset costd) asset depreciation value
18	<p>If payout ratio is 0.45 then retention ratio will be</p> <ul style="list-style-type: none">a) 0.55b) 1.45c) 1.82d) 0.45
19	<p>Stock selling price is Rs 35, expected dividend is Rs 5 and expected growth rate is 8% then cost of common stock would be</p> <ul style="list-style-type: none">a) 40b) 0.2229c) 0.1428d) 80
20	<p>Retention ratio is 0.55 and return on equity is 12.5% then growth retention model would be</p> <ul style="list-style-type: none">a) 0.1195b) 0.06875c) 0.1305d) 0.2272
21	<p>Stock selling price is Rs 65, expected dividend is Rs 20 and cost of common stock is 42% then expected growth rate will be</p> <ul style="list-style-type: none">a) 0.1123 timesb) 0.1123c) 11.23 timesd) 11.23
22	<p>In retention growth model, percent of net income firms usually pay out as shareholders</p>

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	dividends, is classified as a) payout ratio b) payback ratio c) growth retention ratio d) present value of ratio
23	In weighted average cost of capital, rising in interest rate leads to a) increase in cost of debt b) increase the capital structure c) decrease in cost of debt d) decrease the capital structure
24	Bond risk premium is 3% and bond yield is 10.2% then cost of common stock will be a) 0.034 b) 0.132 c) 0.072 d) 0.306
25	Cost of new debt or marginal debt is also classified as a) historical rate b) embedded rate c) marginal rate d) Both A and B
26	An interest rate which is paid by firm as soon as it issues debt is classified as pre-tax a) term structure b) market premium c) risk premium d) cost of debt
27	In weighted average cost of capital, capital components are funds that are usually offered by a) stock market b) investors c) capitalist d) exchange index
28	Cost which is used to calculate weighted average cost of capital is classified as a) weighted cost of capital b) component cost of preferred stock c) transaction cost of preferred stock d) financing of preferred stock
29	If future return on common stock is 19% and rate on T-bonds is 11% then current market risk premium will be a) 30

	<ul style="list-style-type: none"> b) 0.3 c) 0.08 d) 8
30	<p>In weighted average cost of capital, cost of capital which is risk adjusted and developed for each category of</p> <ul style="list-style-type: none"> a) long-term projects b) industry [industrial] projects c) divisional projects d) short-term project
31	<p>In retention growth model, payout ratio is subtracted from one to calculate</p> <ul style="list-style-type: none"> a) present value ratio b) future value ratio c) retention ratio d) growth ratio
32	<p>Capital budgeting decisions are analyzed with help of weighted average and for this purpose</p> <ul style="list-style-type: none"> a) component cost is used b) common stock value is used c) cost of capital is used d) asset valuation is used
33	<p>A formula of after-tax component cost of debt is</p> <ul style="list-style-type: none"> a) interest rate-tax savings b) marginal tax-required return c) interest rate + tax savings d) borrowing cost + embedded cost
34	<p>Risk free rate is subtracted from expected market return & then multiplied by beta is considered as</p> <ul style="list-style-type: none"> a) country risk b) diversifiable risk c) equity risk premium d) market risk premium
35	<p>Rate of required return by debt holders is used for estimation of</p> <ul style="list-style-type: none"> a) cost of debt b) cost of equity c) cost of internal capital d) cost of reserve assets
36	<p>In estimating a firm's cost of equity, you decide to use the 3 methods discussed in the text and then to take a simple average of the three separate estimates as you feel that in this instance all 3 methods seem equally justified. The before-tax cost of debt is 8%, risk premium above debt is assumed to be 6%, the risk-free rate is 5%, the beta is 0.90, and the</p>

	<p>expected market return is 16%. In addition, the firm is expected to grow dividends at a constant 8.1% rate indefinitely and will pay a Rs 2.00 dividend next year. The firm's common equity is currently selling at Rs 25 per share. The average figure that you come up with should be closest to _____.</p> <p>a) 17.0% b) 16.0% c) 15.0% d) 14.0%</p>
37	<p>.Which of the following is correct regarding the capital component costs for a group?</p> <p>a) The component cost of common equity is based on the firm's component cost of common equity. b) The component cost of debt is based on the firm's component cost of debt. c) Both of the above answers are d) All of the above answers are</p>
38	<p>What is meant by using proxy firms with the CAPM model?</p> <p>a) A proxy firm is one that uses the capital-asset pricing (CAPM) model as its primary evaluation tool in determining project selection or rejection. b) A proxy firm is one that uses the weighted average cost of capital (WACC) as its primary evaluation tool in determining project selection or rejection. c) A proxy firm is a privately held firm in the same industry as the firm. d) A proxy firm is a publicly traded firm, which may be entirely engaged in a business that is nearly identical to the project, used to estimate the beta for a project.</p>

5: Cost of Capital

1	d
2	c
3	a
4	b
5	C
6	d
7	D
8	D
9	d
10	a
11	B

12	d
13	a
14	c
15	b
16	d
17	a
18	a
19	b
20	b
21	b
22	a
23	a
24	C
25	d
26	d
27	b
28	b
29	c
30	b
31	c
32	c
33	a
34	c
35	a
36	c
37	b
38	d

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6: Leverage

1	<p>The degree of financial leverage may be defined as:</p> <ul style="list-style-type: none"> a) percent change in sales/percent change in volume b) percent change in EPS/percent change in net income c) percent change in EPS/percent change in EBIT d) percent change in EPS/percent change in sales
2	<p>Degree of operating leverage may be defined as:</p> <ul style="list-style-type: none"> a) the extent to which the firm utilizes debt in its financing plan b) the percent change in operating income/percent change in unit volume c) the percent change in operating income/percent change in sales d) the percent change in net income/percent change in unit volume
3	<p>Financial leverage:</p> <ul style="list-style-type: none"> a) reflects the firm's commitment to fixed, financial assets b) has no impact on the earning of the firm c) reflects the amount of debt used in the capital structure of the firm d) primarily affects the left side of the balance sheet
4	<p>Degree of combined leverage:</p> <ul style="list-style-type: none"> a) should be minimized by the financial manager b) affects only balance sheet items c) decreases the firm's operating profit d) shows the impact of sales or volume changes on bottom line EPS
5	<p>Lower financial leverage is related to the use of additional _____.</p> <ul style="list-style-type: none"> a) fixed costs b) variable costs c) debt financing d) common equity financing
6	<p>Higher operating leverage is related to the use of additional _____.</p> <ul style="list-style-type: none"> a) fixed costs b) variable costs c) debt financing d) common equity financing
7	<p>Calculate the degree of total leverage (DTL) for a firm that has Rs 10 million in sales. The firm has EBIT of Rs 2,000,000 after accounting for Rs 1,000,000 in fixed costs. The firm has Rs 3,000,000 in debt that costs 10% annually.</p> <ul style="list-style-type: none"> a) 1.45 b) 1.76 c) 1.94 d) 2.16
8	<p>The presence of fixed costs in the total cost structure of a firm results into</p> <ul style="list-style-type: none"> a) Financial Leverage b) Operating Leverage c) Super Leverage d) None of the above.

9	<p>Calculate the degree of operating leverage (DOL) at 400,000 units of quantity sold. The firm has Rs 1,000,000 in fixed costs. The firm anticipates selling each unit for Rs 25 with variable costs of Rs 5 per unit.</p> <p>a) 3.33 b) 1.25 c) 1.14 d) There is not sufficient information provided to calculate the degree of operating leverage (DOL).</p>
10	<p>A firm has a DOL of 3.5 at Q units. What does this tell us about the firm?</p> <p>a) If sales rise by 3.5% at the firm, then EBIT will rise by 1%. b) If EBIT rises by 3.5% at the firm, then EPS will rise by 1%. c) If EBIT rises by 1% at the firm, then EPS will rise by 3.5%. d) If sales rise by 1% at the firm, then EBIT will rise by 3.5%.</p>
11	<p>Calculate the break-even (quantity) point given the following information. The firm has Rs 1,000,000 in fixed costs. The firm produces only one product and anticipates selling each unit for Rs 25 with variable costs of Rs 5 per unit.</p> <p>a) 200,000 b) 50,000 c) 40,000 d) There is not sufficient information provided to calculate the sales break-even point.</p>
12	<p>Calculate the break-even point for sales revenues given the following information. The firm has Rs 1,000,000 in fixed costs. The firm anticipates that variable costs will be Rs 1 for every Rs 5 in sales.</p> <p>a) Rs 1,250,000 b) Rs 1,000,000 c) Rs 250,000 d) Rs 200,000</p>
13	<p>A firm has a DFL of 3.5. What does this tell us about the firm?</p> <p>a) If sales rise by 3.5% at the firm, then EBIT will rise by 1%. b) If EBIT rises by 3.5% at the firm, then EPS will rise by 1%. c) If EBIT rises by 1% at the firm, then EPS will rise by 3.5%. d) If sales rise by 1% at the firm, then EBIT will rise by 3.5%.</p>
14	<p>Calculate the degree of financial leverage (DFL) for a firm when its EBIT is Rs 2,000,000. The firm has Rs 3,000,000 in debt that costs 10% annually.</p> <p>a) 0.78 b) 0.80 c) 1.176 d) 1.29</p>
15	<p>A firm is considering three different financing alternatives -- debt, preferred stock, and common equity. The firm has created an EBIT-EPS chart that shows several indifference points. What does each indifference point show the firm?</p> <p>a) The level of EBIT that generates identical EPS under two alternative financing plans. b) The level of sales that generates identical EBIT and EPS figures. c) It shows the level of EBIT and EPS at which DFL is identical under two alternative financing plans. d) None of the above.</p>

16	<p>Which of the following statements is correct?</p> <ul style="list-style-type: none">a) The coefficient of variation of EBIT, CVEBIT, is a measure of relative financial risk.b) The coefficient of variation of EPS, CVEPS, is a measure of relative total firm risk.c) Total firm risk equals business risk times financial risk.d) A relative measure of relative business risk equals the difference, CVEPS - CVEBIT.
17	<p>The maximum amount of debt (and other fixed-charge financing) that a firm can adequately service is referred to as the _____.</p> <ul style="list-style-type: none">a) debt capacityb) debt-service burdenc) adequacy capacityd) fixed-charge burden
18	<p>The cash required during a specific period to meet interest expenses and principal payments is referred to as the:</p> <ul style="list-style-type: none">a) debt capacity.b) debt-service burden.c) adequacy capacity.d) fixed-charge burden.
19	<p>Which of the following costs would be considered a fixed cost?</p> <ul style="list-style-type: none">a) Raw materials.b) Depreciation.c) Bad-debt losses.d) Production labor.
20	<p>In the context of operating leverage break-even analysis, if selling price per unit falls and all other variables remain constant, the operating break-even point in units will _____.</p> <ul style="list-style-type: none">a) fallb) risec) stay the samed) none
21	<p>EBIT is usually the same thing as:</p> <ul style="list-style-type: none">a) funds provided by operations.b) earnings before taxes.c) net income.d) operating profit.
22	<p>A firm's degree of total leverage (DTL) is equal to its degree of operating leverage, its degree of financial leverage (DFL).</p> <ul style="list-style-type: none">a) plusb) minusc) divided byd) multiplied by
23	<p>The further a firm operates above its operating break-even point, the closer its degree of operating leverage (DOL) measure approaches</p> <ul style="list-style-type: none">a) minus one.b) zero.c) one.d) infinity.

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24	<p>An EBIT-EPS indifference analysis chart is used for</p> <ol style="list-style-type: none"> evaluating the effects of business risk on EPS. examining EPS results for alternative financing plans at varying EBIT levels. determining the impact of a change in sales on EBIT. showing the changes in EPS quality over time.
25	<p>A firm's degree of operating leverage (DOL) depends primarily upon its</p> <ol style="list-style-type: none"> sales variability. level of fixed operating costs. closeness to its operating break-even point. debt-to-equity ratio.
26	<p>If a firm has a DOL of 5 at Q units, this tell us that:</p> <ol style="list-style-type: none"> if sales rise by 5%, EBIT will rise by 5%. if sales rise by 1%, EBIT will rise by 1%. if sales rise by 5%, EBIT will fall by 25%. if sales rise by 1%, EBIT will rise by 5%.
27	<p>Financial leverage measures the effect of fixed operating cost on the relationship between:</p> <ol style="list-style-type: none"> Sales and EBIT Sales and EPS EBIT and EPS None of the above
28	<p>Total leverage measures the effect of fixed costs on the relationship between:</p> <ol style="list-style-type: none"> Sales and EBIT Sales and EPS EBIT and EPS None of the above
29	<p>A decrease in fixed operating cost will result in _____ in the degree of financial leverage:</p> <ol style="list-style-type: none"> a decrease an increase no change an undetermined change
30	<p>_____ is the potential use of fixed financial charges to magnify the effects of changes in earnings before interest and taxes on the firm's earnings per share.</p> <ol style="list-style-type: none"> Financial leverage Operating leverage Total leverage Debt service
31	<p>_____ leverage is concerned with the relationship between sales revenues and earnings before interest and taxes.</p> <ol style="list-style-type: none"> Financial Operating Variable Total

32	<p>At a base sales level of Rs 400,000, a firm has a degree of operating leverage of 2 and a degree of financial leverage of 1.5. The firm's degree of total leverage is:</p> <p>a) 3.5 b) 3.0 c) .05 d) 1.3</p>
33	<p>Degree of total leverage can be applied in measuring change in</p> <p>a) EBIT to a percentage change in quantity b) EPS to a percentage change in EBIT c) EPS to a percentage change in quantity d) Quantity to a percentage change in EBIT</p>
34	<p>The measure of business risk is.....</p> <p>a) operating leverage b) financial leverage c) total leverage d) working capital leverage</p>
35	<p>The value of EBIT at which EPS is equal to zero.....</p> <p>a) Break-even point b) Financial break-even point c) Operating break-even point d) Overall break-even point</p>
36	<p>To enhance overall operating results, a firm should prudently use which of the following:</p> <p>a) operating leverage b) financial leverage c) combined leverage d) conservative leverage</p>
37	<p>A higher degree of financial leverage may be desirable for:</p> <p>a) a stable firm, with positive growth, under favorable economic conditions b) an unstable firm operating in an uncertain environment c) a stable firm operating in an uncertain environment d) neither the stable nor unstable firm under any circumstances</p>
38	<p>The degree of financial leverage(DFL)?</p> <p>a) Measures financial risk of the firm b) Is zero at financial break-even point c) Increases as EBIT increase d) Both a and b</p>
39	<p>A high degree of financial leverage:</p> <p>a) is a sign of astute financial management b) will always decrease the cost of financing for the firm c) will result in an increase of the firm's overall value in all cases d) may increase the firm's risk and drive the price of the shares down</p>

40	The conservative firm will utilize: a) a high degree of operating leverage b) a low degree of operating leverage c) high fixed costs d) a higher profit margin
41	The more aggressive firm: a) substitutes higher fixed costs for variable costs b) substitutes lower fixed costs for variable costs c) has lower potential profit above the break-even point d) is normally more effectively managed
42	If management of an aggressive firm is apprehensive about economic conditions: a) a highly leveraged approach should be maintained b) a conservative approach should be implemented c) the use of leverage should be tailored to the desired level of risk d) the attitude of the firm has no impact
43	Most break-even analysis: a) is conducted on the basis of cash flows b) is theoretical only and has little impact on the firm c) excludes fixed costs d) is done on the basis of accounting flows
44	The highly financially leverage firm will typically: a) has a higher EPS figure than the conservative firm b) has a lower EPS figure than the conservative firm c) uses less debt than the conservative firm d) will produce the same EPS figure as the conservative firm
45	The degree of financial leverage for the conservative firm: a) is higher than the DFL for the highly leveraged firm b) is the same as the DFL for the highly leveraged firm c) is lower than the DFL for the highly leveraged firm d) cannot be compared to the DFL for the highly leveraged firm
46	The indifference point identifies: a) equality of impact on eps between two financing plans b) equality of impact on EBIT between two financing plans c) equality of impact on revenue between two financing plans d) equality of impact on number of shares between two financing plans
47	A high degree of financial leverage: e) is a sign of absolute financial management f) will always decrease the cost of financing for the firm g) will result in an increase of the firm's overall value in all cases h) may increase the firm's risk and drive the price of the shares down

1	c
2	b
3	C
4	D

5	d
6	b
7	B
8	B
9	c
10	d
11	b
12	a
13	c
14	d
15	a
16	a
17	b
18	b
19	b
20	b
21	d
22	d
23	c
24	b
25	c
26	d
27	c
28	b
29	A
30	A
31	B
32	B
33	c
34	a
35	b
36	C
37	a
38	a
39	d
40	b

41	a
42	b
43	d
44	a
45	c
46	a
47	d

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7: Capital Structure

1	<p>A firm's optimal capital structure</p> <ul style="list-style-type: none"> a) is the debt-equity ratio that results in the lowest possible weighted average cost of capital. b) is generally a mix of 40 percent debt and 60 percent equity. c) is found by locating the mix of debt and equity which causes the earnings per share to equal exactly Rs 1. d) exists when the debt-equity ratio is .50.
2	<p>M&M Proposition without taxes assumes that</p> <ul style="list-style-type: none"> a) firms should borrow to the point where the tax benefit from debt is equal to the cost of the increased probability of financial distress. b) financial risk is determined by the debt-equity ratio. c) the weighted average cost of capital is constant. d) the cost of equity rises when financial leverage rises.
3	<p>Financial risk:</p> <ul style="list-style-type: none"> a) increases as the left-hand side of a firm's balance sheet changes. b) increases as a firm's debt-equity ratio increases. c) increases as the risk of a firm's new projects increases. d) determines the required return on a firm's assets.
4	<p>The term "capital structure" refers to:</p> <ul style="list-style-type: none"> a) long-term debt, preferred stock, and common stock equity. b) current assets and current liabilities. c) total assets minus liabilities. d) shareholders' equity.
5	<p>A critical assumption of the net operating income (NOI) approach to valuation is:</p> <ul style="list-style-type: none"> a) that debt and equity levels remain unchanged. b) that dividends increase at a constant rate. c) that k_0 remains constant regardless of changes in leverage. d) that interest expense and taxes are included in the calculation.
6	<p>The traditional approach towards the valuation of a company assumes:</p> <ul style="list-style-type: none"> a) that the overall capitalization rate holds constant with changes in financial leverage. b) that there is an optimum capital structure. c) that total risk is not altered by changes in the capital structure. d) that markets are perfect.
7	<p>Two firms that are virtually identical except for their capital structure are selling in the market at different values. According to M&M</p> <ul style="list-style-type: none"> a) one will be at greater risk of bankruptcy. b) the firm with greater financial leverage will have the higher value. c) this proves that markets cannot be efficient. d) this will not continue because arbitrage will eventually cause the firms to sell at the same value.
8	<p>The proposition that the value of the firm is independent of its capital structure is called:</p>

	<ul style="list-style-type: none"> a) the capital asset pricing model. b) MM Proposition c) Net income approach d) the law of one price.
9	<p>MM Proposition I without taxes is used to illustrate:</p> <ul style="list-style-type: none"> a) the value of an unlevered firm equals that of a levered firm. b) that one capital structure is as good as another. c) leverage does not affect the value of the firm. d) All of the above.
10	<p>which of the following approaches advocate that the costs of equity capital and debt capital remain unaltered when the degree of leverage varies?</p> <ul style="list-style-type: none"> a) Net Income Approach b) Traditional Approach c) Modigliani-Miller Approach d) Net operating Income
11	<p>The overall capitalization rate and cost of debt remain constant for all degrees of leverage. This is pronounced by.....</p> <ul style="list-style-type: none"> a) Traditional approach b) Net operating income approach c) Net income approach d) CAPM approach
12	<p>Corner portfolio is calculated where a.....</p> <ul style="list-style-type: none"> a) Security enters b) Security leaves c) Security enters or leave d) Security with high extreme value enters
13	<p>Which of the following represents Modigliani and Miller's first position on the effect of capital gearing on Weighted Average Cost of Capital (WACC)?</p> <ul style="list-style-type: none"> a) There is a negative relationship between financial gearing and the WACC because of the 'free lunch' effect of the tax shield. b) There is a positive relationship between financial gearing and the WACC because of financial distress. c) There is no relationship between financial gearing and the WACC as there are no 'free lunch' benefits from higher gearing. d) There is a positive relationship between financial gearing and the WACC because of the increased volatility of the ROE.
14	<p>The presence of which one of the following costs is not used as a major argument against the M&M arbitrage process?.</p> <ul style="list-style-type: none"> a) Bankruptcy costs. b) Agency costs. c) Transactions costs. d) Insurance costs.
15	<p>What is the present value of the net tax-shield of debt if the current market value of the firm is Rs 10 million, its value if unlevered would be Rs 8 million, and the present value of bankruptcy and agency costs is Rs 500,000?</p>

	<ul style="list-style-type: none"> a) Rs 1,500,000 b) Rs 2,000,000 c) Rs 2,500,000 d) None of the above are correct.
16	<p>What is the market value of common equity under the NOI approach? The firm has an expected net operating income of Rs 5,000 with Rs 4,000 of debt (market value). Assume that the overall capitalization rate is 20%.</p> <ul style="list-style-type: none"> a) Rs 5,000 b) Rs 20,000 c) Rs 21,000 d) Rs 25,000
17	<p>Which of the following statements regarding the net operating income approach is incorrect?</p> <ul style="list-style-type: none"> a) The overall capitalization rate, k_0, is constant. b) The cost of debt funds, k_i, is constant. c) The required return on equity, k_e, is constant. d) The total value of the firm is unaffected by changes in financial leverage.
18	<p>Pecking order theory suggests which of the following?</p> <ul style="list-style-type: none"> a) Internal funds, debt, and external equity have the same risk-adjusted return. b) Debt is preferred to external equity and internal funds. c) External equity is preferred to debt which is preferred to internal funds. d) Internal capital is preferred to debt which is preferred to external funds.
19	<p>Allowing for bankruptcy costs and an increasing probability of bankruptcy with increasing financial leverage, we should expect _____ than would be the case without bankruptcy costs.</p> <ul style="list-style-type: none"> a) the premium for business risk to be higher b) the premium for business risk to be lower c) the premium for financial risk should rise by less d) the premium for financial risk should rise by more
20	<p>The existence of _____ on the balance sheet generates tax advantages that directly influence the capital structure of the firm.</p> <ul style="list-style-type: none"> a) a large proportion of fixed assets b) long-term debt c) retained earnings d) All of the above answers are
21	<p>As the amount of _____ increases the present value of _____.</p> <ul style="list-style-type: none"> a) debt; net tax-shield benefits of debt increases b) common equity; bankruptcy and agency costs increase c) debt; net tax-shield benefits of debt decrease d) common equity; net tax-shield benefits of debt decrease.
22	<p>When the manager of a firm uses capital structure changes to convey information about the profitability and risk of the firm, then the manager is engaging in _____.</p> <ul style="list-style-type: none"> a) financial signaling b) informational symmetry c) the net operating income approach to capital structure d) the traditional approach to capital structure

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23	<p>_____ costs are associated with monitoring management to ensure that it behaves properly.</p> <ul style="list-style-type: none">a) Agencyb) Behavioralc) Bankruptcyd) Managerial
24	<p>_____ costs are those associated with engaging in various business transactions that may cause the firm to not have the exact optimal capital structure.</p> <ul style="list-style-type: none">a) Agencyb) Transactionc) Bankruptcyd) Managerial
25	<p>Assume that the market imperfection of taxes exists. If the corporate tax rate were increased under new legislation, the use of debt would _____</p> <ul style="list-style-type: none">a) riseb) fallc) not be impactedd) There is not sufficient information provided to determine the impact.
26	<p>Assume that the economy has unexpectedly and immediately gone into a recession. Which of the following firms that are in the same industry and face the same business risks would most likely see the largest increase in the present value of bankruptcy costs?</p> <ul style="list-style-type: none">a) A firm with the highest proportion of common equity financing.b) A firm with the highest proportion of debt financing.c) A firm with the lowest proportion of preferred stock financing.d) All firms will see an identical rise in the present value of bankruptcy costs since the business risk is the same.
27	<p>In general, what would happen to the debt ratio of a firm if it always kept an optimal capital structure and if: 1) the government changed tax laws that allowed the deduction of dividend financing and 2) excluded the deduction of interest expense?</p> <ul style="list-style-type: none">a) The debt ratio would fall.b) The debt ratio would rise.c) The debt ratio would not change.
28	<p>Which term would most likely be associated with the phrase "actions speak louder than words?"</p> <ul style="list-style-type: none">a) Incentive signaling.b) Shareholder wealth maximization.c) Financial signaling.d) Optimal capital structure.
29	<p>Which of the following is not something that you would consider when evaluating the optimal capital structure?</p> <ul style="list-style-type: none">a) Agency Costs.b) EBIT-EPS Analysis.c) Taxes.d) Security Rating.e) All of the above are considered when determining the optimal capital structure.f) Neither the second nor fourth answer is correct.

30	In terms of relative risk, which of the following is true? a) Debt is risky for investors while equity is risky for the firm. b) Both are equally risky for investors. c) Both are equally risky for the firm. d) Debt is risky for the firm while equity is risky for the investor.
31	What is the general phenomenon known as gearing? a) Gearing represents the effect whereby greater fixed cost leads to greater variability of business outcome. b) Gearing represents the effect whereby greater variable cost leads to greater variability of business outcome. c) Gearing represents the effect whereby greater fixed cost leads to less variability of business outcome. d) Gearing represents the effect whereby greater variable cost leads to less variability of business outcome.
32	Which of the following is true for leveraged beta? a) Leveraged beta represents fundamental operational risk. b) Leveraged beta represents financial risk from leverage. c) Leveraged beta represents fundamental operational risk plus financial risk from leverage. d) Leveraged beta represents fundamental operational risk minus financial risk from leverage.
33	Which of the following does not make the firm more vulnerable to financial distress? A. High sensitivity of the company's revenues to the general level of economic activity. B. High proportion of fixed to variable costs. C. Physical capital assets which are relatively illiquid and difficult-to-market. D. The tax shield
34	Why is it generally believed that there is an optimal capital gearing ratio? a) There is a precise gearing ratio at which the benefit of the tax shield is exactly matched by the increasing risk of financial distress. b) There is a precise gearing ratio at which the risk of the tax shield is exactly matched by the increasing benefit of financial distress. c) There is a precise gearing ratio at which the benefit of the tax shield is exactly matched by the increasing risk of agency. d) There is a precise gearing ratio at which the benefit of managerial motivation is exactly matched by the increasing risk of agency.

1	A
2	C
3	B
4	a
5	C

6	B
7	B
8	B
9	D
10	A
11	B
12	C
13	d
14	d
15	c
16	c
17	c
18	a
19	d
20	b
21	a
22	a
23	a
24	b
25	a
26	b
27	a
28	c
29	e
30	d
31	a
32	c
33	d
34	a

8: Dividend Policy

1	<p>Retained earnings are</p> <ol style="list-style-type: none"> an indication of a company's liquidity. the same as cash in the bank. not important when determining dividends. the cumulative earnings of the company after dividends.
2	<p>A/(An) _____ is the expected cash dividend that is normally paid to shareholders.</p> <ol style="list-style-type: none"> stock split stock dividend extra dividend regular dividend
3	<p>All of the following are true of stock splits EXCEPT:</p> <ol style="list-style-type: none"> market price per share is reduced after the split. the number of outstanding shares is increased. retained earnings are changed. proportional ownership is unchanged.
4	<p>Modigliani and Miller argue that the dividend decision _____.</p> <ol style="list-style-type: none"> is irrelevant as the value of the firm is based on the earning power of its assets is irrelevant as the value of the firm is not based just on the dividend payout ratio of company is irrelevant as dividends represent cash leaving the firm to shareholders, who own the firm anyway is relevant as cash outflow always influences other firm decisions
5	<p>A(n) _____ is a payment of additional shares to shareholders in lieu of cash.</p> <ol style="list-style-type: none"> stock split stock dividend extra dividend regular dividend
6	<p>A(n) _____ occurs when there is an increase in the number of shares outstanding by reducing the par value of stock.</p> <ol style="list-style-type: none"> stock split stock dividend extra dividend regular dividend
7	<p>Which is a non-recurring dividend paid to shareholders in addition to the regular dividend.</p> <ol style="list-style-type: none"> A stock split A stock dividend An extra dividend A regular dividend
8	<p>Gordon's "bird-in-the-hand" argument suggests that</p> <ol style="list-style-type: none"> dividends are irrelevant. firms should have a 100 percent payout policy.

	<p>c) shareholders are generally risk averse and attach less risk to current dividends</p> <p>d) the market value of the firm is unaffected by dividend policy</p>
9	<p>A dividend reinvestment plan (DRIP) is _____.</p> <p>a) an optional plan, provided by brokerage firms, allowing shareholders to automatically reinvest dividend payments in additional shares of the firm's stock.</p> <p>b) an optional plan, provided by large corporate firms, allowing shareholders to automatically reinvest dividend payments in additional shares of the firm's stock.</p> <p>c) a mandatory plan, provided by brokerage firms, where shareholders are automatically reinvesting dividend payments in additional shares of the firm's stock at a reduced price.</p> <p>d) a mandatory plan, provided by large corporate firms, where shareholders are automatically reinvesting dividend payments in additional shares of the firm's stock at a reduced price.</p>
10	<p>The Board of Directors announces the amount and date of the next dividend on the _____ date; while the _____ date is the first date on which the purchaser of a stock is no longer entitled to the recently declared dividend.</p> <p>a) declaration; record</p> <p>b) ex-dividend; record</p> <p>c) declaration; ex-dividend</p> <p>d) payment; record</p>
11	<p>Which of the following is not a reason that Shikshawala would prefer to pay a stock dividend rather than a regular cash dividend?</p> <p>a) It decreases the supply of shares and enhances shareholder wealth.</p> <p>b) It may conserve cash for other firm needs.</p> <p>c) It will reduce the stock price into what management perceives as a more beneficial trading range.</p> <p>d) It may convey information about the firm to investors that it cannot convey credibly otherwise.</p>
12	<p>Under the marginal principle of retained earnings:</p> <p>a) the firm must compare what it can earn with what shareholders could earn on funds if they were distributed</p> <p>b) all funds above and beyond retained earnings are paid to shareholders</p> <p>c) funds not paid to creditors and preferred shareholders belong to common shareholders</p> <p>d) all projects are financed internally</p>
13	<p>Which of the following statements is correct:</p> <p>a) Dividend amounts are first determined, and the residual retained</p> <p>b) In achieving the highest overall return, dividends are irrelevant</p> <p>c) Most shareholders prefer retained earnings over dividends</p> <p>d) There is conclusive proof that investors prefer dividends over retained earnings</p>
14	<p>The directors of a small, closely held corporation may be reluctant to pay dividends at all because:</p> <p>a) the dividends will be taxed at a higher rate</p> <p>b) they fear diluting the cash position of the firms</p> <p>c) they haven't the means to do a complete funds flow analysis</p> <p>d) they fear a shareholder proxy battle</p>

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15	<p>Wealthier shareholders tend to prefer:</p> <ul style="list-style-type: none"> a) a high dividend payout ratio b) short term capital gains c) floating rate dividends d) capital appreciation
16	<p>Dividends may be considered relevant because:</p> <ul style="list-style-type: none"> a) they increase the investor's overall return b) a higher return will be earned than with retained earnings c) they are preferred by investors in higher tax brackets d) they resolve uncertainty in the minds of investors
17	<p>Which of the following examples best represents a passive dividend policy?</p> <ul style="list-style-type: none"> a) The firm sets a policy such that the proportion of dividends paid from net income remains constant. b) The firm pays dividends with what remains of net income after taking acceptable investment projects. c) The firm sets a policy such that the quantity (dollar amount per share) of dividends paid from net income remains constant. d) All of the above are examples of various types of passive dividend policies.
18	<p>A corporation will typically pay the highest dividends in:</p> <ul style="list-style-type: none"> a) Development - Stage I b) Growth - Stage II c) Expansion - Stage III d) Maturity - Stage IV
19	<p>Most of the firm's shareholders will prefer:</p> <ul style="list-style-type: none"> a) floating dividends that vary with the firm's performance. b) stable dividends over time c) that funds be reinvested as retained earnings d) stock dividends
20	<p>What method of stock repurchase occurs when the buyer purchases securities through a brokerage house?</p> <ul style="list-style-type: none"> a) Dutch-auction b) Fixed-price c) Open-market d) Fair-warning
21	<p>By maintaining a relatively stable dividend level, the firm:</p> <ul style="list-style-type: none"> a) hopes to increase holdings of its common shares b) hopes to decrease holdings of its common shares c) hopes to increase the discount rate applied to future dividends d) hopes to decrease the discount rate applied to future dividends
22	<p>"Large-percentage stock dividends" are typically _____ percent or higher of previously outstanding common stock.</p> <ul style="list-style-type: none"> a) 25 b) 35 c) 51 d) 70
23	<p>A corporation will typically pay moderate dividends in:</p>

	<ul style="list-style-type: none"> a) Development - Stage I b) Growth - Stage II c) Expansion - Stage III d) Maturity - Stage IV
24	<p>Shikshawala.com has had earnings of Rs 3.20, Rs 3.00, and Rs 5.50 per share for the past three years. The firm anticipates maintaining the same dividend policy this year as the past three years. That dividend policy has resulted in dividends per share of Rs 1.28, Rs 1.20, and Rs 2.20 for the past three years. It is anticipated that the next year will result in a large increase in earnings to Rs 9.80 per share. What dividend do you expect the firm to pay in the next year?</p> <ul style="list-style-type: none"> a) Rs 3.92 b) Rs 1.56 c) Rs 3.12 d) Rs 4.68
25	<p>The shareholders of your firm anticipate receiving a regular dividend that is consistent with past dividend policies. What benefit occurs to shareholders if the firm repurchases shares with the same total quantity of money that would have been spent on dividends? Assume that the P/E ratio is maintained with either scenario.</p> <ul style="list-style-type: none"> a) Shareholders can postpone or reduce taxes (assuming a lower capital gain rate). b) It is cheaper for shareholders to sell existing shares for cash than it costs to reinvest cash dividends into existing shares. c) The current shareholders benefit because there are a greater number shareholders than if the firm pays a cash dividend. d) There is no benefit as shareholders will not be receiving any cash.
26	<p>the repurchase of stock is considered _____ decision rather than _____ decision.</p> <ul style="list-style-type: none"> a) an investment; a financing b) a financing; an investment c) an investment; a dividend d) a dividend; a financing
27	<p>The _____ is the proportion of earnings that are paid to common shareholders in the form of a cash dividend.</p> <ul style="list-style-type: none"> a) retention rate b) 1 plus the retention rate c) growth rate d) dividend payout ratio
28	<p>All of the following are characteristics of the expansion stage of corporate growth except:</p> <ul style="list-style-type: none"> a) sales expansion continues, but at a decreasing rate b) returns on investment decline c) the asset expansion rate increases d) the firm is better able to pay higher cash dividends
29	<p>All of the following are key dates associated with the declaration of a dividend except:</p> <ul style="list-style-type: none"> a) the ex-dividend date\ b) the holder of record date c) the payment date

	d) the dividend receipt date
30	Dividends are quoted _____, but paid _____: a) quarterly, annually b) annually, quarterly c) annually, semi-annually d) annually, monthly
31	In chronological order, which of the following is correct a) ex-dividend date, holder of record date, payment date b) holder of record date, ex-dividend date, holder of record date c) payment date, ex-dividend date, holder of record date d) holder of record date, payment date, ex-dividend date
32	A stock dividend: a) represents a distribution of additional shares to common shareholders b) differs from a stock split largely in size c) normally has no real value to the investor d) all of the above are correct
33	If a firm repurchases its own stock: a) in theory, the action is equivalent to paying cash dividends b) the price of the stock is lowered into a more popular trading range c) shareholders benefit less than with a stock split d) shareholders benefit less than with a stock dividend

1	D
2	d
3	C
4	b
5	b
6	a
7	b
8	C
9	b
10	c
11	a
12	a
13	b
14	B
15	D
16	D
17	B

18	d
19	b
20	c
21	d
22	A
23	c
24	a
25	a
26	b
27	d
28	c
29	d
30	b
31	a
32	d
33	a

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9: Working Capital

1	<p>To financial analysts, "working capital" means the same thing as _____.</p> <p>a) total assets b) fixed assets c) current assets d) current assets minus current liabilities.</p>
2	<p>Working capital is also known as</p> <p>a) Current capital or circulating capital b) Work in progress capital c) Day-to-day capital d) Trading capital</p>
3	<p>Different stakeholders possess different powers and interests. How should stakeholders with high interest and high power be treated?</p> <p>a) Keep them informed about all the major happenings b) Devote negligible effort c) Invest maximum effort d) No extra effort needed</p>
4	<p>The amount of current assets required to meet a firm's long-term minimum needs is referred to as _____ working capital.</p> <p>a) permanent b) temporary c) net d) gross</p>
5	<p>A firm's inventory turnover (IT) is 8 times on a cost of goods sold (COGS) of Rs 800,000. If the IT changes to 5 times while the COGS remains the same, a substantial amount of funds is either released from or additionally invested in inventory. In fact, _____.</p> <p>a) Rs 160,000 is released b) Rs 100,000 is additionally invested c) Rs 60,000 is additionally invested d) Rs 60,000 is released</p>
6	<p>If EOQ = 1,000 units, order costs are Rs 200 per order, and sales total 5,000 units, what is the carrying cost per unit?</p> <p>a) Rs 2 b) Rs 10 c) Rs 100 d) Rs 1,000</p>
7	<p>A decrease in the firm's receivable turnover ratio means that _____.</p> <p>a) it is collecting credit sales more quickly than before b) it is collecting credit sales more slowly than before c) sales have gone down d) inventories have gone up</p>
8	<p>What represents one quantitative approach that has been developed to estimate the ability of businesses (and individuals) to service credit granted to them.</p> <p>a) The ABC method b) A JIT system</p>

	<ul style="list-style-type: none"> c) An MRP system d) A credit-scoring system
9	<p>Which of the following best represents the optimal economic order quantity (EOQ), where total usage of the inventory item is 100,000 units for the planning period, the cost per order is Rs 180, and the carrying costs per unit for each period is Rs 1?</p> <ul style="list-style-type: none"> a) 6,000 units. b) 4,243 units. c) 556 units. d) 4 units.
10	<p>Inventory is listed as a part of current assets. Stock or inventory in an organization means</p> <ul style="list-style-type: none"> a) Goods that are readily available for sale b) All the assets available for sale c) All the raw material, Semi finished and the finished goods in the organization d) Goods that can be sold within a short span of time
11	<p>Working capital management is primarily concerned with the management and financing of:</p> <ul style="list-style-type: none"> a) cash and inventory. b) Bills Receivable c) current assets. d) receivables and payables.
12	<p>The amount of current assets that varies with seasonal requirements is referred to as _____ working capital.</p> <ul style="list-style-type: none"> a) permanent b) net c) temporary d) gross
13	<p>According to behavioral studies on leadership, a leader should set an inspiring example for followers. A leader should possess following characteristics</p> <ul style="list-style-type: none"> a) Defiance, Triviality, Inventiveness, Resourcefulness b) Diligence, daring, peer assessment, Triviality c) Defiance, daring, Inventiveness, Resourcefulness d) Diligence, daring, Innovation and creativity, peer assessment
14	<p>Which of the following statements is most correct about inventory management?</p> <ul style="list-style-type: none"> a) The order point can be expressed as the average lead time multiplied by average daily usage and then, minus the necessary safety stock. b) EOQ occurs where total carrying costs (TCC) plus total ordering costs (TOC) is minimized. c) The JIT system where inventories are reduced to a bare minimum is at odds with the inventory EOQ model. d) For most firms, inventory management is simply the result of ordering what the plant manager requests to maximize the output per shift.
15	<p>Spontaneous financing includes</p> <ul style="list-style-type: none"> a) accounts receivable. b) accounts payable. c) short-term loans. d) a line of credit.
16	<p>Having defined working capital as current assets, it can be further classified according to _____.</p> <ul style="list-style-type: none"> a. financing method and time b. rate of return and financing method c. time and rate of return d. components and time

17	<p>Permanent working capital</p> <ol style="list-style-type: none"> varies with seasonal needs. includes fixed assets. is the amount of current assets required to meet a firm's long-term minimum needs. includes accounts payable.
18	<p>Your firm has a philosophy that is analogous to the hedging (maturity matching) approach. Which of the following is the most appropriate form for financing a new capital investment in plant and equipment?</p> <ol style="list-style-type: none"> Trade credit. 6-month bank notes. Accounts payable. Common stock equity.
19	<p>Financing a long-lived asset with short-term financing would be</p> <ol style="list-style-type: none"> an example of "moderate risk -- moderate (potential) profitability" asset financing. an example of "low risk -- low (potential) profitability" asset financing. an example of "high risk -- high (potential) profitability" asset financing. an example of the "hedging approach" to financing.
20	<p>Companies provide credit system as it is</p> <ol style="list-style-type: none"> An essential tool for alluring and holding the valuable clients feasible for the managers needed by the suppliers a way to organize the capital of the organization
21	<p>Under a conservative financing policy a firm would use long-term financing to finance some of the temporary current assets. What should the firm do when a "dip" in temporary current assets causes total assets to fall below the total long-term financing?</p> <ol style="list-style-type: none"> Use the excess funds to pay down long-term debt. Invest the excess long-term financing in marketable securities. Use the excess funds to repurchase common stock. Purchase additional plant and equipment.
22	<p>If EOQ = 40 units, order costs are Rs 2 per order, and carrying costs are Rs .20 per unit, what is the usage in units?</p> <ol style="list-style-type: none"> 10 units. 16 units. 40 units. 80 units.
23	<p>_____ represents one quantitative approach that has been developed to estimate the ability of businesses (and individuals) to service credit granted to them.</p> <ol style="list-style-type: none"> The ABC method A JIT system An MRP system A credit-scoring system
24	<p>Which of the following would be consistent with a more aggressive approach to financing working capital?</p> <ol style="list-style-type: none"> Financing short-term needs with short-term funds. Financing permanent inventory buildup with long-term debt. Financing seasonal needs with short-term funds. Financing some long-term needs with short-term funds.
25	<p>Which asset-liability combination would most likely result in the firm's having the greatest risk of technical insolvency?</p>

	<ul style="list-style-type: none"> a) Increasing current assets while lowering current liabilities. b) Increasing current assets while incurring more current liabilities. c) Reducing current assets, increasing current liabilities, and reducing long-term debt. d) Replacing short-term debt with equity.
26	<p>Which of the following would be consistent with a conservative approach to financing working capital?</p> <ul style="list-style-type: none"> a) Financing short-term needs with short-term funds. b) Financing short-term needs with long-term debt. c) Financing seasonal needs with short-term funds. d) Financing some long-term needs with short-term funds.
27	<p>What do we call it when a firm extends credit terms that encourage the buyers of certain products to take delivery before the peak sales period and to defer payment until after the peak sales period?</p> <ul style="list-style-type: none"> a) Trade account. b) Cash discount. c) Peak trade account. d) Seasonal dating.
28	<p>Which of the following statements hold true for safety stock?</p> <ul style="list-style-type: none"> a) The greater the risk of running out of stock, the larger the safety stock needed. b) The lower the opportunity cost of the funds invested in inventory, the smaller the safety stock needed. c) The greater the uncertainty associated with forecasted demand, the lower the level of safety stock needed. d) The higher the profit margin per unit, the lower the safety stock necessary.
29	<p>Which of the following illustrates the use of a hedging (or matching) approach to financing?</p> <ul style="list-style-type: none"> a) Short-term assets financed with long-term liabilities. b) Permanent working capital financed with long-term liabilities. c) Short-term assets financed with equity. d) All assets financed with a 50 percent equity, 50 percent long-term debt mixture.
30	<p>Which of the following is a basic principle of finance as it relates to the management of working capital?</p> <ul style="list-style-type: none"> a) Profitability varies inversely with risk. b) Liquidity moves together with risk. c) Profitability moves together with risk. d) Profitability moves together with liquidity.
31	<p>Net working capital refers to</p> <ul style="list-style-type: none"> a) total assets minus fixed assets. b) current assets minus current liabilities. c) current assets minus inventories. d) current assets.
32	<p>In deciding the optimal level of current assets for the firm, management is confronted with _____.</p> <ul style="list-style-type: none"> a) a trade-off between profitability and risk b) a trade-off between liquidity and risk c) a trade-off between equity and debt d) a trade-off between short-term versus long-term borrowing
33	<p>In deciding the appropriate level of current assets for the firm, management is confronted with</p> <ul style="list-style-type: none"> a) a trade-off between profitability and risk. b) a trade-off between liquidity and marketability. c) a trade-off between equity and debt. d) a trade-off between short-term versus long-term borrowing.

34	<p>Which of the following statements is most correct?</p> <p>a) For small companies, long-term debt is the principal source of external financing.</p> <p>b) Current assets of the typical manufacturing firm account for over half of its total assets.</p> <p>c) Strict adherence to the maturity matching approach to financing would call for all current assets to be financed solely with current liabilities.</p> <p>d) Similar to the capital structure management, working capital management requires the financial manager to make a decision and not address the issue again for several months.</p>
35	<p>_____ varies inversely with profitability.</p> <p>a) Liquidity.</p> <p>b) Risk.</p> <p>c) Blue.</p> <p>d) False.</p>
36	<p>Shikshawala is considering a change in their credit terms. The firm is considering offering a 1.5% discount. Most likely competitors will follow suit, so sales will remain at Rs 1 million and 40% of sales will be eligible to take advantage of the discount. The firm anticipates that receivables will be reduced by Rs 30,000 and the firm has an opportunity cost of 18%. Should the firm change its credit terms?</p> <p>a) Yes.</p> <p>b) No.</p> <p>c) It does not really matter as the benefits and the costs are identical.</p> <p>d) It cannot be determined from the given information.</p>
37	<p>Which of the following statements is correct regarding inventory if there were an inventory outage?</p> <p>a) Customers of our firm will likely be irritated (or disappointed) if their purchases are late or delayed because an inventory shortage slows production at our firm.</p> <p>b) The firm will possibly need to layoff workers temporarily if there is an inventory shortage.</p> <p>c) The firm will likely lose sales today via cancelled orders or future sales because of past customer experiences if customers do not receive their orders as expected and agreed upon.</p> <p>d) All of the above answers are correct</p>
38	<p>How can a firm provide a margin of safety if it cannot borrow on short notice to meet its needs?</p> <p>a) Maintain a low level of current assets (especially cash and marketable securities).</p> <p>b) Shorten the maturity schedule of financing.</p> <p>c) Increasing the level of fixed assets (especially plant and equipment).</p> <p>d) Lengthening the maturity schedule of financing.</p>
39	<p>If a company moves from a "conservative" working capital policy to an "aggressive" policy, it should expect _____.</p> <p>a) liquidity to decrease, whereas expected profitability would increase</p> <p>b) expected profitability to increase, whereas risk would decrease</p> <p>c) liquidity would increase, whereas risk would also increase</p> <p>d) risk and profitability to decrease</p>
40	<p>Risk, as it relates to working capital, means that there is jeopardy to the firm for not maintaining sufficient current assets to _____.</p> <p>a) meet its cash obligations as they occur and take advantage of prompt payment</p>

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- discounts
- b) support the proper level of sales and take prompt payment discounts
 - c) maintain current and acid-test ratios at or above industry norms
 - d) meet its cash obligations as they occur and support the proper level of sales

1	c
2	a
3	c
4	a
5	C
6	A
7	B
8	D
9	A
10	c
11	C
12	c
13	d
14	B
15	b
16	a
17	c
18	d
19	C
20	a
21	b
22	D
23	D
24	d
25	c
26	b
27	D
28	A
29	b
30	c

31	b
32	a
33	a
34	D
35	a
36	B
37	D
38	d
39	a
40	d

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10: Security Analysis & Portfolio Management

1	<p>Which of the following is not a characteristic of a risk averter?</p> <p>a) A risk averter will not buy lottery tickets because the expected payoffs are less than the cost of the tickets.</p> <p>b) To be induced to take risk, a risk averter must be offered a risk premium.</p> <p>c) A risk averter always prefers a certain investment over an uncertain investment as long as the expected returns on the two investments are identical.</p> <p>d) A risk averter will be ready to pay a higher price for an asset whose variance increases.</p>
2	<p>If the future were known with certainty, which of the following statements would be wrong?</p> <p>a) There is no dependency with other assets.</p> <p>b) The risk premium is zero.</p> <p>c) All financial assets yield the same rate of return.</p> <p>d) The variance is greater than zero.</p>
3	<p>Political constancy is chief aspect concerning</p> <p>a) exchange risk</p> <p>b) systematic risk</p> <p>c) non-systematic risk</p> <p>d) country risk</p>
4	<p>Which of the following statements is incorrect?</p> <p>a) All assets would have the same rate of return if the future were known with certainty.</p> <p>b) When the actual probabilities are known, as in coin-flipping experiment, these probabilities are called objective probabilities.</p> <p>c) The geometric mean cannot be larger than the arithmetic mean.</p> <p>d) The variance is the square root of the standard deviation</p>
5	<p>Arbitrage trading strategy implies that:</p> <p>a) profits are made by trading low risk investments.</p> <p>b) profits are made with no risk and no investment.</p> <p>c) large profits are made by undertaking high risk investments.</p> <p>d) profits are made by investing in riskless securities.</p>
6	<p>Liquidity risk is:</p> <p>a) is risk investments bankers face</p> <p>b) is lower for small OTC</p> <p>c) is risk associated with secondary market transactions</p> <p>d) increases whenever interest rates increases</p>
7	<p>Which of the following is a measure of the dispersion of returns around the mean?</p> <p>a) Variance.</p> <p>b) Covariance.</p> <p>c) Expected return.</p> <p>d) Correlation.</p>
8	<p>The expected return is determined by:</p> <p>a) probabilities.</p> <p>b) rates of return on an asset.</p> <p>c) correlations.</p> <p>d) both the first and second answer.</p>

9	<p>Suppose there are two assets, A and B, and the current price of A is Rs 50. If it is known with certainty that A will be worth Rs 60 in one year and B will be worth Rs 72, what is the equilibrium price of B today?</p> <p>a) Rs 56. b) Rs 60. c) Rs 50. d) Rs 72.</p>
10	<p>A Treasury bill yields 6%. Asset A is expected to yield either 12% (probability = 40%) or 2% (probability = 60%). Which of the following is true?</p> <p>a) A risk averter would not invest in Asset A because it has a negative risk premium. b) A risk averter might invest in Asset A because investment choices are a matter of personal preference. c) A risk averter would not invest in Asset A because she is not rewarded with a risk premium. d) A risk averter might invest in Asset A because she is rewarded with a risk premium.</p>
11	<p>Bondholders usually accept interest payments each</p> <p>a) 1 year b) six months c) 2 months d) 2 years</p>
12	<p>The returns of Stock A over the past 3 years were -5%, 0%, and 5%. What is the standard deviation of A's historical return?</p> <p>a) 16.67% b) 4.08% c) 5% d) 25%</p>
13	<p>Which of the following statements about the mean-variance criterion is correct?</p> <p>a) Investors select assets that provide the highest rate of return. b) Investors select assets that provide the highest variance for the same or higher expected return. c) The risk premium is zero. d) Investors select assets that provide the lowest variance for the same or higher expected return</p>
14	<p>Investors who completely ignore an asset's variance and only consider the asset's expected return are called:</p> <p>a) risk averters. b) risk-neutral investors. c) value-seeking investors. d) risk seekers.</p>
15	<p>To calculate historical (realized) risk and return, use:</p> <p>a) ex-ante data. b) ex-post data. c) probability distributions of possible states. d) mean and variance of expected return.</p>
16	<p>Superior portfolio is not basically a collection of individually</p> <p>a) good portfolio b) good investments c) negative securities d) all of answer correct</p>
17	<p>A price weighted index is an arithmetic mean of</p> <p>a) future prices b) current prices c) quarter prices d) none of these</p>

18	A corporate bond is a corporation's written undertaking that it will refund a specific amount of money plus a) premium b) interest c) nothing d) security
19	Political consistency is chief aspect concerning a) exchange risk b) social risk c) non-systematic risk d) country's economic growth
20	An asset's risk premium is given by: a) expected return per unit of standard deviation. b) the excess of the asset's expected return over the riskless rate. c) the asset's standard deviation. d) the asset's expected return.
21	Most favorable portfolio is proficient portfolio with the a) lowest risk b) highest risk c) highest utility d) least investment
22	Financial hazard is most related with a) use of equity financing by corporations b) use of debt financing by corporations c) equity investments held by corporations d) debt investment held by corporations
23	If generally interest rates in nation increase, a corporate bond with a fixed interest rate will usually a) increase in value b) remain unchanged c) decrease in value. d) be returned to corporation.
24	Standard deviation determine a) systematic risk of a security b) unsystematic risk of security c) total risk of security d) premium of security
25	A main difference among real and nominal interest proceeds is that a) real returns adjust for inflation and nominal returns do not b) real returns use actual cash flows and nominal use expected cash flows c) real interest adjusts for commissions and nominal returns do not d) real returns show highest possible return and nominal returns show lowest possible returns
26	Trustee is a self-governing organization that operates as bondholders a) partner b) guardian c) broker d) representative
27	Ambiguity introduced by way of which organization finances its investments is at a) country risk b) liquidity risk c) financial risk d) business risk
28	In order to settle on compound growth rate of an investment over period, an investor

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	determine the a) geometric mean b) calculus mean c) arithmetic mean d) arithmetic median
29	A closed-end fund is a mutual fund in which shares issue just when fund is a) organized b) unorganized c) copied d) random behaviour showing
30	Asset allocation is procedure of scattering your assets between numerous different kinds of investments to a) highest risk b) moderate risk c) lessen risk d) no risk
31	Which of the following is a tax saving investment? a) Fixed deposit b) Shares c) NSC d) PPF
32	In Capital Market Line every investment is a) infinitely divisible b) finitely divisible c) infinitely in divisible d) all of answer correct
33	Investments would grade uppermost with regard to protection is a) government bonds b) common stock c) preferred stock d) real estate
34	Total portfolio hazard is a) equal to systematic risk plus diversifiable risk b) equal to systematic risk plus unavoidable risk c) equal to avoidable risk plus diversifiable risk d) equal to systematic risk plus no diversifiable risk
35	Choice of correlation coefficient is between a) 0 to 1 b) 0 to 2 c) -1 to +1 d) -1 to 3
36	The fundamental analysis approach has been associated with _____. a) Uncertainties b) Certainties c) Ratios d) Balance sheet
37	The object of portfolio is to reduce _____ by diversification. a) Return b) Risk c) Uncertainty d) Percentage
38	Non-systematic risk is furthermore identified as a) no diversifiable risk b) market risk c) random risk

	d) company specific risk
39	A portfolio comprises of two stocks A and B. Stock A gives a return of 8% and stock B gives a return of 7%. Stock A has a weight of 60% in the portfolio. What is the portfolio return? a) 9% b) 11.2% c) 7.6% d) 7.8%
40	Investors should be agreeing to invest in riskier investments merely a) if return is short b) if there are no safe alternatives except for holding cash c) if expected return is adequate for risk level d) if there are true speculators
41	A company's _____ provide the most accurate information to its management and shareholders about its operations. a) Advertisements b) Financial statements c) Products d) Vision statement
42	Which of the following is not a financial investment? a) Purchase of shares b) Purchase of bonds c) Purchase of car d) Purchase of debentures
43	Unlike term insurance, _____ ensure a return of capital to the policyholder on maturity, along with the death benefits. a) High premium or low premium policies b) Fixed or variable policies c) Assurance or endowment policies d) Growth or value policies
44	Hold two securities as an alternative of will not decrease hazard occupied by an investor if two securities are a) perfectly positive correlated b) perfectly negative correlated c) no correlation d) all of answer correct

1	d
2	d
3	d
4	d
5	b
6	c
7	a
8	d
9	b
10	c
11	b
12	b

13	d
14	b
15	b
16	b
17	b
18	b
19	d
20	b
21	c
22	b
23	c
24	c
25	a
26	d
27	c
28	a
29	a
30	c
31	d
32	a
33	a
34	a
35	c
36	a
37	b
38	d
39	c
40	c
41	b
42	C
43	c
44	a

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11: Nature & Scope of Financial Management


1	"Shareholder wealth" in a firm is represented by: a) the number of people employed in the firm. b) the book value of the firm's assets less the book value of its liabilities. c) the amount of salary paid to its employees. d) the market price per share of the firm's common stock.
2	Which of the following statements are true? A) Financial statements are only interim report. B) Financial statements are also known as annual records. C) Financial statements are historic. a) Both A and B b) Both A and C c) Both B and C d) A, B, C
3	Financial management process deals with a) Investments b) Financing decisions c) Both a and b d) None of the above
4	Financial management mainly focuses on a) Efficient management of every business b) Brand dimension c) Arrangement of funds d) All elements of acquiring and using means of financial resources for financial activities
5	The objective of wealth maximization takes into account a) Amount of returns expected b) Timing of anticipated returns c) Risk associated with uncertainty of returns d) All of the above
6	The long-run objective of financial management is to: a) maximize earnings per share. b) maximize the value of the firm's common stock. c) maximize return on investment. d) maximize market share.
7	Finance Function comprises a) Safe custody of funds only b) Expenditure of funds only c) Procurement of finance only d) Procurement & effective use of funds
8	What are the earnings per share (EPS) for a company that earned Rs 100,000 last year in

	<p>after-tax profits, has 200,000 common shares outstanding and Rs 1.2 million in retained earning at the year end?</p> <p>a) Rs 100,000 b) Rs 6.00 c) Rs 0.50 d) Rs 6.50</p>
9	<p>Interpretation of accounts is the</p> <p>a) Art and science of translating the figures b) To know financial strengths and weaknesses of a business c) To know the causes for the prevailing performance of business d) All of the above</p>
10	<p>The decision function of financial management can be broken down into the decisions.</p> <p>a) financing and investment b) investment, financing, and asset management c) financing and dividend d) capital budgeting, cash management, and credit management</p>
11	<p>Agency cost consists of</p> <p>a) Binding b) Monitoring c) Opportunity and structure cost d) All of the above</p>
12	<p>A(n) would be an example of a principal, while a(n) would be an example of an agent.</p> <p>a) shareholder; manager b) manager; owner c) accountant; bondholder d) shareholder; bondholder</p>
13	<p>Financial management process deals with</p> <p>a) Investments b) Financing decisions c) Both a and b d) None of the above</p>
14	<p>The market price of a share of common stock is determined by:</p> <p>a) the board of directors of the firm. b) the stock exchange on which the stock is listed. c) the president of the company. d) individuals buying and selling the stock.</p>
15	<p>Which of the following are techniques, tools or methods of analysis and interpretation of financial statements?</p> <p>a) Ratio Analysis b) Average Analysis c) Trend Analysis d) All of the above</p>

16	<p>Analysis of any financial Statement comprises</p> <p>a) Balance sheet b) P&L Account c) Trading account d) All of the above</p>
17	<p>The only feasible purpose of financial management is</p> <p>a) Wealth Maximization b) Sales Maximization c) Profit Maximization d) Assets maximization</p>
18	<p>The controller's responsibilities are primarily _____ in nature, while the treasurer's responsibilities are primarily related to _____ .</p> <p>a) operational; financial management b) financial management; accounting c) accounting; financial management d) financial management; operations</p>
19	<p>Comparison of financial statements highlights the trend of the _____ of the business.</p> <p>a) Financial position b) Performance c) Profitability d) All of the above</p>
20	<p>The focal point of financial management in a firm is:</p> <p>a) the number and types of products or services provided by the firm. b) the minimization of the amount of taxes paid by the firm. c) the creation of value for shareholders. d) the dollars profits earned by the firm.</p>
21	<p>The assessment of financial statements by a shareholder is an example of</p> <p>a) Vertical Analysis b) Horizontal Analysis c) Internal Analysis d) External Analysis</p>
22	<p>Which of the following statements are true?</p> <p>A) Comparative financial statement is an example of horizontal analysis. B) Trend Analysis is an example of vertical analysis. C) Cash flow analysis is an example of horizontal analysis.</p> <p>a) Both A and B b) Both A and C c) Both B and C d) A, B, C</p>
23	<p>Which of the following is true about financial statements?</p>

	<p>A) Financial statement gives a summary of accounts. B) Financial statements can be stated as recorded facts.</p> <p>a) Only A b) Only B c) Both A and B d) None of the above</p>
24	<p>P&L statement is also known as</p> <p>a) Statement of operations b) Statement of income c) Statement of earnings d) All of the above</p>
25	<p>The term current asset doesn't cover</p> <p>a) Car b) Debtors c) Stock d) Prepaid expenses</p>
26	<p>The form of balance sheet is as per Companies Act is</p> <p>a) Vertical b) Horizontal c) Horizontal and vertical d) Horizontal or vertical</p>
27	<p>Finance Function comprises</p> <p>a) Safe custody of funds only b) Expenditure of funds only c) Procurement of finance only d) Procurement & effective use of funds</p>

1	d
2	c
3	C
4	D
5	d
6	b
7	d
8	c
9	d
10	b

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11	d
12	a
13	b
14	d
15	d
16	d
17	a
18	c
19	d
20	c
21	d
22	b
23	c
24	b
25	a
26	a
27	d

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12: Sources of Finance

1	<p>Ordinary shares in limited companies:</p> <ol style="list-style-type: none"> a. have an unlimited life, and voting rights but receive no dividends b. have an unlimited life, and voting rights and receive dividends c. have a limited life, with no voting rights but receive dividends d. have a limited life, and voting rights and receive dividends
2	<p>Loans to limited companies:</p> <ol style="list-style-type: none"> a. have a fixed term and receive interest which is not allowable for corporation tax, but have no voting rights b. do not have a fixed term but receive interest which is allowable for corporation tax, and have voting rights c. have a fixed term and receive interest which is allowable for corporation tax, but have no voting rights d. do not have a fixed term and receive interest which is allowable for corporation tax, but have no voting rights
3	<p>Internal sources of finance do not include:</p> <ol style="list-style-type: none"> a. better management of working capital b. trade credit c. retained earnings d. ordinary shares
4	<p>The money market is an important financial market because:</p> <ol style="list-style-type: none"> a. The money market is the world's liquidity market b. It is the market in which the central bank conducts monetary policy c. The government finances most of its credit needs in the money market d. All of the above
5	<p>The type of business least likely to use trust recipient of loans would be a _____.</p> <ol style="list-style-type: none"> a. distributor of lighting supplies b. dealer in automobiles c. dealer of appliances d. dealer of large earth moving equipment
6	<p>Financial intermediation is best described as</p> <ol style="list-style-type: none"> a. The flow of savings of lenders to borrowers in return for the IOU of the borrower b. The flow of borrowed funds directly to deficit spending units c. The purchase of indirect financial claims of financial intermediaries and the subsequent purchase of direct financial claims, held as liabilities of financial intermediaries d. The purchase of direct financial claims with funds raised by issuing separate indirect financial claims to savers
7	<p>If credit terms of "1/10, net 35" are offered, the approximate cost (using 365 days) of not taking the discount and paying at the end of the credit period would be _____.</p> <ol style="list-style-type: none"> a. 10.0% b. 10.3% c. 14.7%

	d. 35.0%
8	External sources of finance do not include: a. debentures b. overdrafts c. leasing d. retained earnings
9	Shareholder wealth" in a firm is represented by: a. The market price per share of the firm's common stock b. The amount of salary paid to its employees c. The book value of the firm's assets less the book value of its liabilities d. The number of people employed in the firm
10	Dividends are: a. not allowable for corporation tax b. paid to lenders c. not paid to ordinary shareholders d. not paid to preference shareholders
11	A(n) _____ budget is the plan of the various costs and expenses needed to operate the business, based on the short-term forecast. a. capital budget b. operating budget c. cash budget d. resource budget.
12	When should a rational financial manager pay a bill if 1) a discount is offered, 2) the discount has not yet expired, 3) the firm needs to borrow funds to take the discount, 4) the firm will have sufficient cash by the end of the net period, and 5) the best possible borrowing rate exceeds the cost of forgoing the discount? a. As soon as possible after the discount date so as to not upset the supplier. b. No sooner than six months so as to maximize the use of "free" trade credit financing. c. On the final due date. d. None of the above.
13	Debt capital refers to: a. money raised through the sale of shares. b. funds raised by borrowing that must be repaid. c. factoring accounts receivable. d. inventory loans.
14	All except one is associated with direct financing a. One financial claim contract b. A broker, dealer or investment banker c. Small denomination financial claims d. Government and business borrowers dominate

15	<p>A debenture:</p> <ol style="list-style-type: none"> is a short-term loan receives dividend payments does not require security is a long-term loan
16	<p>The long-run objective of financial management is to:</p> <ol style="list-style-type: none"> Maximize earnings per share Maximize the value of the firm's common stock Maximize return on investment Maximize market share
17	<p>A capital market financing is most likely to finance:</p> <ol style="list-style-type: none"> New plant and equipment Seasonal inventory needs A quarterly dividend payment The sale of common stock
18	<p>Which of the following is not a method of issuing ordinary shares:</p> <ol style="list-style-type: none"> auction placing issue by tender intermediary offer
19	<p>Islamic finance:</p> <ol style="list-style-type: none"> does not allow interest to be paid on loans allows interest to be paid on loans views money as a store of value is available only in Muslim countries
20	<p>Preference shares:</p> <ol style="list-style-type: none"> are not part of a company's share capital are not allowable for corporation tax receive dividends have no voting rights
21	<p>If Shikshawala receive an invoice for purchases dated 12/12/2020 subject to credit terms of "2/10, net 30", what is the last possible day the discount can be taken?</p> <ol style="list-style-type: none"> January 11. January 22. January 30. December 30.
22	<p>The most widely used source of short-term funding is:</p> <ol style="list-style-type: none"> factoring. trade credit. family and friends. commercial banks.
23	<p>A lien against a group of assets without the assets being specifically identified is referred to as a _____.</p> <ol style="list-style-type: none"> trust receipt chattel mortgage floating lien terminal warehouse receipt

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24	The decision function of financial management can be broken down into the decisions <ol style="list-style-type: none"> financing and investment investment, financing, and asset management financing and dividend capital budgeting, cash management, and credit management
25	A surplus spending unit is one who(se): <ol style="list-style-type: none"> Income and expenditures for the period are equal Income for the period exceeds consumption and real investment expenditure Expenditure for the period exceeds receipts Uses credit cards for all consumer purchase
26	Which of the following enjoys limited liability? <ol style="list-style-type: none"> A general partnership A corporation A sole proprietorship None of the above
27	Large industrial corporations are involved in the money market by: <ol style="list-style-type: none"> Investing excess cash balances Buying and selling goods on credit in international trade Issuing commercial papers All of the above
28	When a firm needs guaranteed, short-term funds available for a variety purposes, the bank loan will likely be a _____. <ol style="list-style-type: none"> compensating balance arrangement revolving credit agreement transaction loan line of credit
29	A loan backed by collateral is called <ol style="list-style-type: none"> line of credit. dividend. secured loan. trade credit.
30	Which forecast gives management some sense of the profit potential possible of different strategic plans? <ol style="list-style-type: none"> short-term forecast. cash flow forecast. long-term forecast. none of the above.
31	Which of the following is a short-term source of funds <ol style="list-style-type: none"> issue corporate bonds. factor accounts receivable. issue common stock A & B
32	A short-term corporate equivalent of an IOU that is sold in the market place by a firm is called: <ol style="list-style-type: none"> sinking bond. mortgage. commercial paper. convertible bond.
33	Which of the following is not a form of short-term, spontaneous credit?

	<ul style="list-style-type: none"> a. Accrued wages. b. Trade credit. c. Commercial paper. d. Accrued taxes.
34	<p>Which of the following statements about various types of negotiated financing is most correct?</p> <ul style="list-style-type: none"> a. Because commercial paper is a money market instrument, even companies ranked low on creditworthiness are able to use it as a source of short-term financing. b. Bankers acceptances involve a large, well-known bank replacing the creditworthiness of the "drawee" (e.g., an American importer). c. The principal disadvantage of commercial paper as a source of short-term financing is that it is generally more expensive than a short-term business loan from a commercial bank. d. Revolving credit agreements are informal arrangements to extend credit up to a maximum amount over a stated time period.
35	<p>A statement that projects management's expectations for revenues and, based on those financial expectations, allocates the use of specific resources throughout the firm is called:</p> <ul style="list-style-type: none"> a. a cash flow. b. a budget. c. a resource plan. d. a resource allocation.
36	<p>Shikshawala has a revolving credit agreement with a bank. It can borrow up to Rs 2 million at 10 percent interest and is required to keep 10 percent compensating balance on all borrowed funds. If the firm must also pay .4 percent (.004) compensating balance and borrows Rs 1.2 million for the entire year, what is the effective cost of borrowing?</p> <ul style="list-style-type: none"> a. 10.4% b. 11.6% c. 12.2% d. 20.4%
37	<p>The focal point of financial management in a firm is:</p> <ul style="list-style-type: none"> a. The number and types of products or services provided by the firm b. The minimization of the amount of taxes paid by the firm c. The creation of value for shareholders d. The dollars profits earned by the firm
38	<p>A bond backed by the company's real assets is called a:</p> <ul style="list-style-type: none"> a. preferred bond. b. unsecured bond. c. convertible bond. d. first mortgage bond.
39	<p>A firm's profit that is distributed to shareholders is called:</p> <ul style="list-style-type: none"> a. interest. b. dividends. c. discounts. d. stock certificate.
40	<p>The most common cause(s) of financial problems are:</p> <ul style="list-style-type: none"> a. undercapitalization. b. inadequate expense control. c. credit terms.

	d. all of the above.
41	Which of the following terms best applies to the short-term interest rate charged by banks to large, creditworthy customers? a. Discount basis interest rate. b. Long-term bond rate. c. Prime rate. d. Fed funds rate.
42	The type of corporate ownership stock that gives owners preference over common shareholders in the payment of dividends and in a claim on assets if the company is liquidated is called: a. preferred stock. b. common stock. c. bondholders. d. creditors.
43	What is the interest rate that world-class banks in London pay each other for Eurodollars? a. London interbank offered rate (LIBOR). b. London long-term bond rate (LLBR). c. London Euro rate (LER). d. London Eurobond rate (LER).
44	Which of the following is not an advantage of issuing bonds? a. management retains control. b. interest paid is tax deductible. c. bonds are only a temporary source of finance. d. none of the above.
45	A security device acknowledging that the borrower holds specifically identified inventory and proceeds from its sale in trust for the lender is referred to as a _____. a. trust receipt b. chattel mortgage c. floating lien d. terminal warehouse receipt
46	The trade terms "1/10, net 45" indicate that _____. a. a 1% discount is permitted if payment is made within 10 days b. a 10% discount is permitted if payment is made within 45 days c. a 1% discount is permitted if payment is made within 45 days d. a 45% discount is permitted if payment is made within 10 days
47	Which of the following is incorrect regarding accounts-receivable-backed loans? a. Lenders typically advance between 85% and 95% of the face value of accepted accounts receivable. b. Accounts receivable are very desirable as security for these short-term loans. c. Government and foreign accounts are usually ineligible. d. The lender can reject accounts that are currently overdue.
48	Under CBD terms of sale, the seller _____. a. extends credit to the buyer on open account b. extends credit to the buyer on notes payable account c. asks the buyer to make progress payments

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	d. asks the buyer to pay before the goods are shipped
49	<p>What is the difference between interest being paid on a discount basis versus a collect basis?</p> <p>a. Interest is deducted from the loan on a discount basis while interest is paid at maturity on a collect basis.</p> <p>b. The present value of all interest payments are paid upfront on a discount basis while the future value of all interest payments are paid at maturity on a collect basis.</p> <p>c. The interest rate is below prime, or at a discount, when paid on a discount basis; while the collect basis occurs when additional interest is charged for excessive loan risk and collected at the maturity of the loan.</p> <p>d. None of the above answers are correct.</p>

1	B
2	C
3	D
4	D
5	A
6	D
7	C
8	D
9	A
10	A
11	B
12	C
13	B
14	C
15	D
16	B
17	A
18	A
19	A
20	D
21	B
22	B
23	C
24	B

25	B
26	B
27	D
28	B
29	C
30	C
31	B
32	c
33	C
34	B
35	B
36	B
37	C
38	D
39	B
40	D
41	C
42	A
43	A
44	D
45	A
46	D
47	A
48	D
49	A

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