

## CHAPTER: 01,06 AND 07

- 1) Time value of money explains that
  - a) A unit of money received today is worth more than a unit received in future
  - b) A unit of money received today is worth less than a unit received in future
  - c) A unit of money received today and at some other time in future is equal
  - d) None of the above
- 2) Time value of money facilitates comparison of cash flows occurring at different time periods by
  - a) Compounding all cash flows to a common point of time
  - b) Discounting all cash flows to a common point of time
  - c) Using either (a) or (b)
  - d) Neither (a) nor (b)
- 3) If the nominal rate of interest is 10 per cent per annum and frequency of compounding is 4 i.e. quarterly compounding, the effective rate of interest will be
  - a) 10.25% per annum
  - b) 10.38% per annum
  - c) 10% per annum
  - d) None of the above
- 4) Relationship between annual effective rate of interest and annual nominal rate of interest is, if frequency of compounding is more than 1,
  - a) Effective Rate < Nominal rate
  - b) Effective Rate > Nominal rate
  - c) Effective Rate = Nominal rate
  - d) None of the above
- 5) If annual effective rate of interest is 10.25 % per annum and nominal rate of return is 10% per annum what is the frequency of compounding
  - a) 1
  - b) 3
  - c) 2
  - d) 4
- 6) A student takes a loan of ₹50,000 from SBI. The rate of interest being charged by SBI is 10% per annum. What would be the amount of equal annual instalment if he wishes to pay it back in five instalments and first instalment, he will pay at the end of year 5?
  - a) ₹ 11,000
  - b) ₹ 19,310
  - c) ₹ 15,000
  - d) None of the above
- 7) How much amount should an investor invest now in order to receive five annuities starting from the end of this year of ₹ 10,000 if the rate of interest offered by bank is 10 % per annum?
  - a) ₹ 40,000
  - b) ₹ 45,000
  - c) ₹ 37,910
  - d) None of the above
- 8) A bank offers 12% compound interests payable quarterly. If you deposit ₹2,000 now, how much it will grow at the end of 5 years?
  - a) ₹ 3,050
  - b) ₹ 3,430
  - c) ₹ 3,612
  - d) ₹ 3,722

- 9) A company wants to repay a loan of ₹ 5,00,000, 10 years from today. What amount should it invest each year for 10 years if the funds can earn 8% per annum. The first investment will be made at the beginning of this year
- a) ₹ 50,000                      b) ₹ 31,950                      c) ₹ 40,000                      d) ₹ 32,950
- 10) Risk of two securities having different expected return can be compared with
- a) Standard deviation of securities                      b) Variance of securities  
c) Coefficient of variation                      d) Mean
- 11) A portfolio consists of two securities and the expected return on two securities is 12% and 16% respectively. Calculate return of portfolio if first security accounts for 40% of portfolio
- a) 15%                      b) 14.4%                      c) 16%                      d) 12%
- 12) If the rate of interest is 12%, what are the doubling periods as per the rule 72 and the rule of 69 respectively?
- a) 5 Years and 5.2 Years                      b) 5.8 Years and 5.3 Years  
c) 6 Years and 6.1 Years                      d) 6.5 Years and 6.6 Years
- 13) To create a minimum variance portfolio, in what proportion should the two securities be mixed if the following information is given  $S_1 = 10\%$ ,  $S_2 = 12\%$ ,  $P_{12} = 0.6$ ?
- a) 0.72 and 0.28                      b) 0.70 and 0.30  
c) 0.60 and 0.40                      d) 0.50 and 0.40
- 14) A portfolio consisting of two risky securities can be made risk less i.e.,  $S_p = 0$ , if
- a) The securities are perfectly positively correlated  
b) The securities are perfectly negatively correlated  
c) If the correlation ranges between 0 to 1  
d) If the correlation ranges between -1 to +1
- 15) Efficient portfolios are those portfolios, which offer (for a given level of risk)
- a) Maximum return                      b) Minimum return  
c) Average return                      d) Positive return
- 16) CAPM accounts for -
- a) Systematic risk                      b) Unsystematic risk  
c) Both of the above                      d) Moderate risk

**True or False**

- 1) Time value of money signifies that the value of a unit of money remains unchanged during different time periods.
- 2) Time value of a unit of money is different over different periods on account of the reinvestment opportunities with the firms.

- 3) Cash flows accruing to the firms at different time periods are directly comparable.
- 4) Either compounding or discounting technique can be used, to make heterogeneous cash flows comparable.
- 5) Effective and nominal rate of interest remain the same irrespective of the frequency of compounding.
- 6) Effective rate of interest is positively correlated with frequency of compounding.
- 7) To arrive at the present value of cash flows, discounting is done at the rate which represents opportunity cost of funds.
- 8) Present value tables for annuity can be directly applied to mixed stream of cash flows.
- 9) To facilitate comparison of cashflows that are occurring at different time periods, the technique of either compounding all cash flows to the terminal year or discounting all cash flows to the time zero period can be adopted.
- 10) Return on any financial asset consists of current yield and capital yield.
- 11) Risk of an individual financial asset refers to variability of its returns around its mean returns.
- 12) Return of a portfolio is simply weighted average of returns on individual securities in the portfolio multiplied by their corresponding proportions (weights) in the portfolio.
- 13) For a given correlation coefficient, a minimum variance portfolio can be created, for which risk of portfolio will be less than the risk of any security in the portfolio.
- 14) Correlation among the securities in the portfolio has nothing to do with the risk of portfolio.
- 15) If a portfolio consists of two securities, which are perfectly positively correlated, the risk of portfolio will simply be the weighted average of the standard deviations of individual securities.
- 16) A portfolio consisting of two risky securities can be made riskless, if the securities are perfectly negatively correlated.
- 17) Efficient frontier consists of those portfolios which offer maximum risk for a given level of expected returns.
- 18) In CAPM, Beta represents total risk, i.e., systematic and unsystematic risk.
- 19) The point of tangency between the efficient frontier and risk-return indifference curve provides optimal portfolio for the investor concerned.
- 20) Security market line (SML) and Capital market line (CML) are the same.

## Fill in the Blanks

- 1) The main objectives of financial management may be classified into: \_\_\_\_\_.
- 2) Higher the stock price per share, the greater will be the \_\_\_\_\_.
- 3) \_\_\_\_\_ is the annual growth of investments over a specific period of time.
- 4) \_\_\_\_\_ objective is preferred by shareholders.
- 5) \_\_\_\_\_ is an annuity that occurs indefinitely.
- 6) \_\_\_\_\_ is after the fact return -return that was earned or could have been earned.
- 7) \_\_\_\_\_ represents that portion of Total Risk which is attributable to factors that affect the market as a whole.
- 8) \_\_\_\_\_ is the erosion in the value of money due to the effects of inflation.
- 9) In finance, \_\_\_\_\_ is the risk that a given security or asset cannot be traded quickly enough in the market to prevent a loss (or make the required profit).

## Answer:

### 1) Answers To MCQS

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

### 2) Answers For True or False Statements

1	2	3	4	5	6	7	8	9	10
F	T	F	T	F	T	T	F	T	T
11	12	13	14	15	16	17	18	19	20
T	T	T	F	T	T	F	F	T	F

### 3) Answers To Fill in The Blanks

1	Profit maximization and Value/Wealth maximization.	2	shareholder's wealth
3	Compound Annual Growth Rate (CAGR)	4	Wealth maximization
5	Perpetuity	6	Realised return
7	Systematic Risk	8	Purchasing Power Risk
9	liquidity risk		

**CHAPTER:02 INSTITUTIONS AND INSTRUMENTS IN FINANCIAL MARKETS**

1. Assets Management company is formed
  - a) To manage bank's assets
  - b) To manage mutual funds' investments
  - c) To construct infrastructure projects
  - d) To run a stock exchange
2. Prime duty of a merchant banker is -
  - a) Maintaining records of clients
  - b) Giving loans to clients
  - c) Working as a Capital Market Intermediary
  - d) None of the above
3. Basic objective of a money market mutual fund is
  - a) Guaranteed rate of return
  - b) Investment in short-term securities
  - c) Both (a) and (b)
  - d) None of (a) and (b)
4. Short selling refers to
  - a) Buying shares and then selling them on the same day
  - b) Selling shares without owning them
  - a) Selling some shares out of a large holding
  - b) Continuously selling shares in lots
5. Which of the following is not regulated by SEBI?
  - a) Foreign Institutional Investors
  - b) Foreign Direct Investment
  - c) Mutual Funds
  - d) Depositories
6. Which of the following is true for mutual funds in India?
  - a) Exit load is not allowed
  - b) Entry load is allowed
  - c) Entry load is not allowed
  - d) Exit load allowed is some cases
7. Which of the following is not available in India?
  - a) Index Options
  - b) Index Futures,
  - c) Commodity Options
  - d) Commodity Futures
8. Which of the following is the benefit of Depositories?
  - a) Reduction in the share transfer time to the buyer
  - b) Reduced Risk of stolen, fake, forged shares
  - c) No Stamp duty on transfer of shares in dematerialized form
  - d) All of the above

9. Credit Rating of a debt security is
- a) Guarantee of Repayment
  - b) Merely opinion
  - c) Positive suggestion
  - d) Negative suggestion
10. The first computerized online stock exchange in India was
- a) NSE
  - b) OTCEI
  - c) BSE
  - d) MX
11. Which of the following derivative is not traded on Indian Stock Market?
- a) Index Options
  - b) Stock Futures
  - c) Index Futures
  - d) Forward Rate Agreements
12. How many depositories are there in India?
- a) 2
  - b) 3
  - c) 0
  - d) 1
13. Secondary Market in India is regulated by
- a) Reserve Bank of India
  - b) SEBI
  - c) Ministry of Finance
  - d) Forward Market Commission
14. \_\_\_\_\_ funds do not have a fixed date of redemption
- a) Open ended funds
  - b) Close ended funds
  - c) Diversified funds
  - d) Both A and B
15. In India, NIFTY and SENSEX are calculated on the basis of
- a) Market Capitalization
  - b) Paid up Capital
  - a) Free-float Capitalization
  - b) Authorized Share Capital
16. The type of collateral (security) used for short-term loan is
- a) Real estate
  - b) Plant & Machinery
  - c) Stock of good
  - d) Equity share capital
17. Which of the following is a liability of a bank?
- a) Treasury Bills
  - b) Commercial papers
  - c) Certificate of Deposits
  - d) Junk Bonds
18. Commercial paper is a type of
- a) Fixed coupon Bond
  - b) Unsecured short-term debt
  - c) Equity share capital
  - d) Government Bond
19. Which of the following is not a spontaneous source of short-term funds?
- a) Trade credit
  - b) Accrued expenses
  - c) Provision for dividend
  - d) All of the above
20. In India, Commercial Papers are issued as per the lines issued by -
- a) SEBI
  - b) Reserve Bank of India
  - c) Forward Market Commission
  - d) RBI

21. Commercial paper is generally issued at a price
- a) Equal to face value
  - b) More than face value
  - c) Less than face value
  - d) Equal to redemption value
22. Which of the following is not applicable to commercial paper?
- a) Face Value
  - b) Issue Price
  - c) Coupon Rate
  - d) None of the above

**True or False**

- 1) Financial services refer to facilities relating to capital market.
- 2) Non-banking finance companies are engaged in financial services.
- 3) NBFCs provide financial services to corporate sector only.
- 4) All NBFCs operating in India must be registered with SEBI.
- 5) Regulatory framework for NBFCs is provided by RBI.
- 6) Any NBFC can borrow funds on mutually agreed terms.
- 7) Prudential norms for Assets and Investments by NBFCs were framed on the recommendations of Narasimhan Committee.
- 8) Assets of NBFCs are also classified as Standard, Non-Standard, Doubtful and Lost.
- 9) NBFCs are not allowed to operate in Insurance sector.
- 10) A merchant banker helps in procuring overdraft from a commercial bank.
- 11) All merchant bankers have to be registered with RBI.
- 12) A lead manager has post-issue responsibilities also.
- 13) Merchant bankers should follow the prescribed code of conduct.
- 14) Share capital issued by a company for the first time is known as venture capital.
- 15) A mutual fund can operate as a venture capital fund.
- 16) A venture capital firm deals with a new, risky and untested product.
- 17) All venture capital funds in India have been promoted by Government.
- 18) Portfolio managers are not required to be registered.
- 19) A portfolio manager has to operate as per the code of conduct prescribed by SEBI.
- 20) Credit rating is an authoritative guarantee regarding the credit position of a person.
- 21) RBI has prescribed guidelines for the operations of credit rating agencies in India.

- 22) Securitization and Factoring are two sides of the same coin.
- 23) Securitization in India is regulated by RBI.
- 24) Capital market includes money market and foreign exchange market.
- 25) Stock exchanges are a part of primary market segment.
- 26) Securities are issued in the secondary market segment.
- 27) SEBI is an association of stock exchanges in India.
- 28) Primary objectives of SEBI include Investors' Protection and Regulation of capital market in India.
- 29) Badla system is prevailing in India.
- 30) Book-building system cannot be used for issue of shares.
- 31) Operations of stock exchanges are directly controlled by Government.
- 32) National Stock Exchange has been established by SEBI.
- 33) OTCEI is a subsidiary of National Stock Exchange.
- 34) At the Stock Exchange, Mumbai (BSE Ltd.) the trading in shares is made through out-cry system.
- 35) The term 'bought out' deal is related to OTCEI.
- 36) The efficiency with which the information is reflected in the market prices of securities, is denoted as the strength of the market.
- 37) SEBI regulates the operations in both the primary and the secondary market.
- 38) New Issue Market is an element of primary market.
- 39) Individual investors can deal with only in secondary market.
- 40) National Stock Exchange of India is a Public Sector Organisation.
- 41) In the on-line trading system at the National Stock Exchange, the badla system has been formalized.

#### Fill in the Blanks

- 1) Capital markets are a sub-part of the \_\_\_\_\_ system.
- 2) \_\_\_\_\_ intermediaries act as a link between savers and investors.
- 3) The primary function of financial intermediaries is to convert \_\_\_\_\_ into securities.
- 4) The two key financial markets are \_\_\_\_\_.
- 5) Money market is a market for \_\_\_\_\_ funds having maturity of \_\_\_\_\_.
- 6) The capital market consists of \_\_\_\_\_ and the stock exchanges.

- 7) While the primary market deals in \_\_\_ securities, the stock market is a market for \_\_\_ securities.
- 8) The prices of new issues are influenced, to a marked extent, by the price movements in the \_\_\_\_\_ market.
- 9) Origination, underwriting and \_\_\_ are three services provided by the new issue market.
- 10) \_\_\_\_\_ is a method to sell securities to the existing shareholders of a company.
- 11) Pricing of issues is left to the investors in \_\_\_\_\_.

## Answer

### 1) Answers To MCQS

1	2	3	4	5	6	7	8	9	10	11	12
b	c	b	b	b	d	c	d	b	b	d	a
13	14	15	16	17	18	19	20	21	22		
b	a	c	c	c	b	c	b	c	d		

### 2) Answers For True or False Statements

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

### 3) Answers To Fill in The Blanks

1	Financial	2	Financial
3	Direct, Indirect	4	Money Market and Capital Market
5	Short-Term One Year or Less	6	New Issue Markets
7	New, Old	8	Stock
9	Distribution	10	Right Issue
11	Book Building Method		

## CHAPTER:03 COST CAPITAL

1. Cost of capital refers to:
  - a) Flotation Cost
  - b) Dividend
  - c) Required Rate of Return
  - d) None of the above
2. Which of the following sources of funds has an implicit cost of capital?
  - a) Equity Share Capital
  - b) Preference Share Capital
  - c) Debentures
  - d) Retained earnings
3. Which of the following has the highest cost of capital?
  - a) Equity shares
  - b) Loans
  - c) Bonds
  - d) Preference shares
4. Cost of capital for Government securities is also known as:
  - a) Risk-free Rate of Interest
  - b) Maximum Rate of Return
  - c) Rate of Interest on Fixed Deposits
  - d) None of the above.
5. Cost of capital for bonds and debentures is calculated on:
  - a) Before Tax basis
  - b) After Tax basis
  - c) Risk-free Rate of Interest basis
  - d) Compound interest
6. Weighted Average Cost of Capital (WACC) is generally denoted by:
  - a)  $K_a$
  - b)  $K_w$
  - c)  $K_0$
  - d)  $K_c$
7. Which of the following cost of capital require tax adjustment?
  - a) Cost of Equity Shares
  - b) Cost of Preference Shares
  - c) Cost of Debentures
  - d) Cost of Retained Earnings
8. Which is the most expensive source of funds?
  - a) New Equity Shares
  - b) New Preference Shares
  - c) New Debts
  - d) Retained Earnings
9. Marginal cost of capital is the cost of:
  - a) Additional Sales
  - b) Additional Funds
  - c) Additional Interests
  - d) Additional Revenue
10. In case the firm is all-equity financed, the WACC would be equal to:
  - a) Cost of Debt
  - b) Cost of Equity
  - c) Neither (a) nor (b)
  - d) Both (a) and (b)
11. In case of partially debt-financed firm,  $k_0$  is less
  - a)  $k_d$
  - b)  $k_e$
  - c) (a) & (b)
  - d)  $k_p$

12. In order to calculate Weighted Average Cost of capitals (WACC) weights may be based on:
- a) Market Values
  - b) Target Values
  - c) Book Values
  - d) All of the above
13. Firm's cost of capital is the average cost of:
- a) All sources
  - b) All borrowings
  - c) Share capital
  - d) Share, Bonds and Debentures
14. An implicit cost of increasing proportion of debt is:
- a) Tax should would not be available on new debt
  - b) P/E Ratio would increase
  - c) Equity shareholders would demand higher return
  - d) Rate of Return of the company would decrease.
15. Cost of redeemable preference share capital is:
- a) Rate of Dividend
  - b) After Tax Rate of Dividend
  - c) Discount Rate that equates PV of inflows and out-flows relating to capital
  - d) None of the above.
16. Which of the following is true?
- a) Retained earnings are cost free
  - b) External Equity is cheaper than Internal Equity
  - c) Retained Earnings are cheaper than External Equity
  - d) Retained Earnings are costlier than External Equity.
17. Cost of capital may be defined as:
- a) Weighted average cost of all debts
  - b) Rate of return expected by equity shareholders
  - c) Average IRR of the Projects of the firm
  - d) Minimum rate of return that the firm should earn.
18. Minimum rate of return that a firm must earn in order to satisfy its investors, is also known as:
- a) Average Return on Investment
  - b) WACC
  - c) Net Profit Ratio
  - d) Average Cost of borrowing
19. Cost of capital for equity share capital does not imply that:
- a) Market price is equal to book value of share
  - b) Shareholders are ready to subscribe to right issue

- c) Market price is more than issue price  
d) All of the three above
20. In order to calculate the proportion of equity financing used by the company, the following should be used:
- a) Authorized Share Capital  
b) Equity Share Capital plus Reserves and Surplus  
c) Equity Share Capital plus Preference Share Capital  
d) Equity Share Capital plus Long-term Debt.
21. The term capital structure denotes:
- a) Total of Liability side of Balance Sheet  
b) Equity Funds, Preference Capital and Long-term Debt  
c) Total Shareholders' Equity  
d) Types of Capital Issued by a Company.
22. Debt financing is a cheaper source of finance because of
- a) Time Value of Money  
b) Rate of Interest  
c) Tax-deductibility of Interest  
d) Dividends not Payable to lenders
23. In order to find out cost of equity capital under CAPM, which of the following is not required:
- a) Beta Factor  
b) Market Rate of Return  
c) Market Price of Equity Share  
d) Risk-free Rate of Interest
24. Tax-rate is relevant and important for calculation of specific cost of capital of
- a) Equity Share Capital  
b) Preference Share Capital  
c) Debentures  
d) (a) and (b) both
25. Advantage of debt financing is
- a) Interest is tax-deductible  
b) It reduces WACC  
c) It does not dilute owner's control  
d) All of the above
26. Cost of issuing new shares to the public is known as
- a) Cost of Equity  
b) Cost of Capital  
c) Flotation Cost  
d) Capital
27. Cost of equity Marginal Cost of share capital is more than cost of debt because
- a) Face value of debentures is more than face value of shares  
b) Equity shares have higher risk than debt  
c) Equity shares are easily saleable  
d) All of the above

28. Which of the following is not a generally accepted approach for calculation of cost of equity?
- a) CAPM
  - b) Dividend Discount Model
  - c) Rate of Preference Dividend Plus Risk Model
  - d) Price-Earnings Ratio.
29. \_\_\_ is the basic debt instrument which may be issued by a borrowing company for a price which may be less than, equal to or more than the face value.
- a) A bond
  - b) A debenture
  - c) A bond or a debenture
  - d) A bond and a debenture
30. Every debt instrument has \_\_\_
- a) A face value
  - b) A maturity value
  - c) A face value as well as a maturity value
  - d) Liquidity value

**True or False**

- 1) Cost of capital is cost of borrowing funds.
- 2) Equity capital does not carry any cost as a company is under no legal obligation to pay dividends.
- 3) Like equity capital, retained earnings also do not cause any cost to the company.
- 4) Weighted average cost of capital takes into consideration cost of long-term sources of finance.
- 5) Retained earnings do not have explicit cost. It carries implicit cost.
- 6) Overall cost of capital decreases on payment of entire long-term debt.
- 7) Cost of retained earnings is less than cost of equity.
- 8) Beta is a measure of unsystematic risk.
- 9) Cost of additional equity share capital is the same as that of existing equity share capital.
- 10) The higher is the corporate tax rate, the higher is the cost of debt.
- 11) Beta is a measure of systematic risk.
- 12) Cost of debt is higher than cost of equity.
- 13) Cost of preference share capital is higher than cost of debt.
- 14) Cost of preference share capital is higher than cost of equity share capital.
- 15) Among all long-term sources of finance, equity capital carries maximum cost.
- 16) The cost of capital is the required rate of return to maintain the value of the firm.

- 17) Cost of capital does not comprise any risk premium.
- 18) Cost of capital is basic data for NPV technique.
- 19) Risk free interest rate and cost of capital are same things.
- 20) Different sources have same cost of capital.
- 21) Tax liability of the firm is relevant for cost of capital of all the sources of funds.
- 22) Cost of debt and Cost of Preference share capital, both, require tax adjustment.
- 23) Every source of fund has an explicit cost of capital.
- 24) WACC is the overall cost of capital of the firm.
- 25) Cost of debt is the same as the rate of interest.
- 26) Cost of Preference share capital is determined by the rate of fixed dividend.
- 27) Cost of Equity share capital depends upon the market price of the share.
- 28) Cost of existing share capital and fresh issue of capital are same.
- 29) Retained earnings have implicit cost only.
- 30) WACC is always calculated with reference to book value of different sources of funds.
- 31) Book value and Market Value weights are always different.
- 32) Retained earnings have no market value, so these are not included in WACC (based on market value).
- 33) Long-term sources of finance are used for a period of 5 to 10 years.
- 34) Medium term sources of finance are needed for a period of 1 to 5 years.
- 35) The preference shares carry limited voting right though they are a part of the capital.
- 36) Lease is a contract between the owner of asset and the user of the asset.
- 37) As compared to operating lease, a financial lease is for a shorter period of time.
- 38) Short-term financing means financing for a period of less than 1 year.
- 39) Factoring and discounting are same.
- 40) ADR means any instrument in the form of a depository receipt or certificate created by the RBI.
- 41) Crowdfunding is a great alternative way to fund a venture.
- 42) Crowdfunding is a collaborative funding model that lets you collect small contributions from many individuals.
- 43) The cost of capital is an integral part of investment decisions as it is used to measure the worth of investment proposal.

## Fill in the Blanks

- 1) The cost of preference shares is \_\_\_\_\_ than that of equity shares.
- 2) A GDR is a \_\_\_\_\_.
- 3) The ADRs \_\_\_\_\_ have voting rights.
- 4) DPIIT stands for \_\_\_\_\_.
- 5) SISFS stands for \_\_\_\_\_.
- 6) \_\_\_\_\_ is a collaborative funding model that lets you collect small contributions from many individuals (the crowd).
- 7) \_\_\_\_\_ is needed to start a business and ramp it up to profitability
- 8) \_\_\_\_\_ is an unsecured promissory note issued by a firm to raise funds for a short period, generally, varying from a few days to a few months.
- 9) The portion of profits not distributed among the shareholders but retained and used in the business is called \_\_\_\_\_.

## Answer

### 1) Answers To MCQS

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

### 2) Answers For True or False Statements

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

F	F	F	F	T	F	T	T	F	T
31	32	33	34	35	36	37	38	39	40
F	F	F	T	T	T	T	F	T	F
41	42	43	44						
F	T	T	T						

### 3) Answers To Fill in The Blanks

1	less	2	negotiable instrument
3	may or may not	4	Department for Promotion of Industry and Internal Trade
5	Start-up India Seed Fund Scheme	6	Crowdfunding
7	Financing	8	Commercial Paper (CP)
9	Retained Earnings		

## CHAPTER:04,05, AND 10

1. Operating leverage helps in analysis of:
  - a) Business Risk
  - b) Financing Risk
  - c) Production Risk
  - d) Credit Risk
2. Which of the following is studied with the help of financial leverage?
  - a) Marketing Risk
  - b) Interest Rate Risk
  - c) Foreign Exchange Risk
  - d) Financing risk
3. Combined Leverage is obtained from OL and FL by their:
  - a) Addition
  - b) Subtraction
  - c) Multiplication
  - d) Any of these
4. High degree of financial leverage means:
  - a) Higher debt proportion
  - b) Lower debt proportion
  - c) Equal debt and equity
  - d) No debt
5. Operating leverage arises because of:
  - a) Fixed Cost of Production
  - b) Fixed Interest Cost
  - c) Variable Cost
  - d) Step Cost
6. Financial Leverage arises because of:
  - a) Fixed cost of production
  - b) Variable Cost
  - c) Interest Cost
  - d) Step Cost
7. Operating Leverage is calculated as:
  - a)  $\text{Contribution} \div \text{EBIT}$
  - b)  $\text{EBIT} \div \text{PBT}$
  - c)  $\text{EBIT} \div \text{Interest}$
  - d)  $\text{EBIT} \div \text{Tax}$
8. Financial Leverage is calculated as:
  - a)  $\text{EBIT} \div \text{Contribution}$
  - b)  $\text{EBIT} \div \text{PBT}$
  - c)  $\text{EBIT} \div \text{Sales}$
  - d)  $\text{EBIT} \div \text{Variable Cost}$
9. Which combination is generally good for firms
  - a) High OL, High FL
  - b) Low OL, Low FL
  - c) High OL, Low FL
  - d) Moderate OL. Moderate F
10. Combined leverage can be used to measure the relationship between:
  - a) EBIT and EPS
  - b) PAT and EPS
  - c) Sales and EPS
  - d) Sales and EBIT
11. FL is zero if:
  - a)  $\text{EBIT} = \text{Interest}$
  - b)  $\text{EBIT} = \text{Zero}$
  - c)  $\text{EBIT} = \text{Fixed Cost}$
  - d)  $\text{EBIT} = \text{Pref. Dividend}$
12. Business risk can be measured by:
  - a) Financial leverage
  - b) Operating leverage
  - c) Combined leverage
  - d) All of the above

13. Financial Leverage measures relationship between
- a) EBIT and PBT
  - b) EBIT and EPS
  - c) Sales and PBT
  - d) Sales and EPS
14. Use of Preference Share Capital in Capital structure
- a) Increases OL
  - b) Increases FL
  - c) Decreases OL
  - d) Decreases FL
15. Relationship between change in sales and change in is measured by:
- a) Financial leverage
  - b) Combined leverage
  - c) Operating leverage
  - d) All of the above
16. Operating leverage works when:
- a) Sales Increases
  - b) Sales Decreases
  - c) Both (a) and (b)
  - d) None of (a) and (b)
17. Which of the following is correct?
- a)  $CL = OL + FL$
  - b)  $CL = OL - FL$
  - c)  $OL = OL \times FL$
  - d)  $OL = OL \div FL$
18. If the fixed cost of production is zero, which one of the following is correct?
- a) OL is zero
  - b) FL is zero
  - c) CL is zero
  - d) None of the above
19. If a firm has no debt, which one is correct?
- a) OL is one
  - b) FL is one
  - c) OL is zero
  - d) FL is zero
20. If a company issues new share capital to redeem debentures, then:
- a) OL will increase
  - b) FL will increase
  - c) OL will decrease
  - d) FL will decrease
21. If a firm has a DOL of 2.8, it means:
- a) If sales increase by 2.8%, the EBIT will increase by 1%
  - b) If EBIT increase by 2.896, the EPS will increase by 1 %
  - c) If sales rise by 1%, EBIT will rise by 2.8%
  - d) None of the above
22. Higher OL is related to the use of higher:
- a) Debt
  - b) Equity
  - c) Fixed Cost
  - d) Variable Cost
23. Higher FL is related the use of:
- a) Higher Equity
  - b) Higher Debt
  - c) Lower Debt
  - d) Lower Equity
24. In order to calculate EPS, Profit after Tax and Preference Dividend is divided.
- a) MP of Equity Shares
  - b) Number of Equity Shares
  - c) Face Value of Equity Shares
  - d) All of the above

25. Trading on Equity is:
- a) Always beneficial
  - b) May be beneficial
  - c) Never beneficial
  - d) Sometimes beneficial
26. Benefit of 'Trading on Equity' is available only if:
- a) Rate of Interest < Rate of Return
  - b) Rate of Interest > Rate of Return
  - c) Both (a) and (b)
  - d) None of (d) and (b).
27. Indifference Level of EBIT is one at which
- a) EPS is zero
  - b) EPS is Minimum
  - c) EPS is highest
  - d) None of these
28. Financial Break-even level of EBIT is one at which:
- a) EPS is one
  - b) EPS is zero
  - c) EPS is Infinite
  - d) EPS is Negative
29. Relationship between change in Sales and Operating Profit is known as:
- a) Financial Leverage
  - b) Operating Leverage
  - c) Net Profit Ratio
  - d) Gross Profit Ratio
30. If a firm has no Preference share capital, Financial Breakeven level is defined as equal to -
- a) EBIT
  - b) Interest liability
  - c) Equity Dividend
  - d) Tax Liability
31. At Indifference level of EBIT, different capital has-
- a) Same EBIT
  - b) Same EPS
  - c) Same PAT
  - d) Same PBT
32. Which of the following is not a relevant factor in EPS Analysis of capital structure?
- a) Rate of Interest on Debt
  - b) Tax Rate
  - c) Preference Share Capital
  - d) Dividend paid last year
33. For a constant EBIT, if the debt level is further increased then
- a) EPS will always increase
  - b) EPS may increase
  - c) EPS will never increase
  - d) None of the above
34. Between two capital plans, if expected EBIT is more than indifference level of EBIT, then
- a) Both plans be rejected
  - b) Both plans are good
  - c) One is better than other
  - d) Both plans are break-even
35. Financial break-even level of EBIT is:
- a) Intercept at Y-axis
  - b) Intercept at X-axis
  - c) Slope of EBIT-EPS line
  - d) None of the above



- 12) If EBIT for two firms is same, then the EPS of these firms would also always be same.
- 13) EPS depends upon the composition of capital structure.
- 14) Financial breakeven level occurs when EBIT is zero.
- 15) At financial breakeven level of EBIT, EPS would be zero.
- 16) Indifference level of EBIT is one at which EPS is zero.
- 17) Indifference level of EBIT is one at which EPS under two or more financial plans would be same.
- 18) All equity plan and Debt-equity plan have no indifference level of EBIT.
- 19) Preference dividend is not a factor of indifference level of EBIT.
- 20) EBIT-EPS Analysis is an extension of financial leverage analysis.
- 21) Trading on equity is resorted to with a view to decrease EPS.
- 22) If the cost of capital of the firm ( $k$ ) is higher than the rate of return ( $r$ ), the firm will retain its earnings as it would lead to the reduction of its cost of capital.
- 23) M-M theory of irrelevance of dividends is applicable only to firms which have a constant investment policy.
- 24) According to M-M theory, the market price of the share will remain unchanged even after the payment of dividends.
- 25) The term dividend refers to that portion of profit (after tax) or earnings or retained earnings which is distributed among the owners/shareholders of the firm.

#### Fill in the Blanks

- 1) Irrational investors are not an assumption of the \_\_\_\_\_ for irrelevance of dividends.
- 2) According to \_\_\_\_\_, the value of the share is proportion to the D/P ratio not related at all.
- 3) The arbitrage process implies that the market value plus current dividends of two firms which are alike in all respects except \_\_\_\_\_ ratio will be identical.
- 4) Under \_\_\_\_\_ condition is the Walter model similar to the MM hypothesis with regards to the payment of dividends.
- 5) According to the Gordon model, the discount rate used by the investors exhibits \_\_\_\_\_ relationship with the retention rate.
- 6) \_\_\_\_\_ measures the percentage of earnings the company pays in dividends =  $\frac{\text{Dividends}}{\text{earnings}}$
- 7) \_\_\_\_\_ theory holds the belief that dividends have effect on a company's stock price.

- 8) When  $r > k$ , the price per share increases as the pay-out ratio \_\_\_\_ (optional pay-out ratio is nil).
- 9) \_\_\_\_\_ theory holds the belief that dividends do not have any effect on a company's stock price.
- 10) Mezzanine debt, sometimes called \_\_\_\_\_.
- 11) In simple terms, the capital stack represents the underlying \_\_\_\_\_.

### Answer:

#### 1) Answers To MCQS

1	a	2	d	3	c	4	a	5	a
6	c	7	a	8	b	9	c	10	c
11	b	12	b	13	b	14	b	15	b
16	c	17	c	18	d	19	b	20	d
21	c	22	c	23	b	24	b	25	b
26	a	27	d	28	b	29	b	30	b
31	b	32	d	33	b	34	c	35	b
36	a	37	c	38	d	39	c		

#### 2) Answers For True or False Statements

1	2	3	4	5	6	7	8	9	10
F	F	F	F	T	T	F	F	T	T
11	12	13	14	15	16	17	18	19	20
T	F	T	F	T	F	T	F	F	T
21	22	23	24	25					
F	F	T	T	T					

#### 3) Answers To Fill in The Blanks

1	MM theory	2	Walters model	3	D/P ratio
4	$R=k$	5	Directly proportional	6	Dividend payout
7	Dividend relevance	8	Decreases	9	Dividend irrelevance
10	Junior debt	11	Capital structure		

## CHAPTER:08 CAPITAL BUDGETING

- 1) Capital Budgeting is a part of:
  - a) Investment Decision
  - b) Working Capital Management
  - c) Marketing Management
  - d) Capital Structure
- 2) Capital Budgeting deals with:
  - a) Long-term Decisions
  - b) Short-term Decisions
  - c) Both (a) and (b)
  - d) Neither (a) nor (b)
- 3) Which of the following is not used in Capital Budgeting?
  - a) Time Value of Money
  - b) Sensitivity Analysis
  - c) Net Assets Method
  - d) Cash Flows
- 4) Capital Budgeting Decisions are:
  - a) Reversible
  - b) Irreversible
  - c) Unimportant
  - d) All of the above
- 5) Which of the following is not incorporated in Capital Budgeting?
  - a) Tax-Effect
  - b) Time Value of Money
  - c) Required Rate of Return
  - d) Rate of Cash Discount
- 6) Which of the following is not a capital budgeting decision?
  - a) Expansion Programme
  - b) Merger
  - c) Replacement of an Asset
  - d) Inventory Level
- 7) A sound Capital Budgeting technique is based on:
  - a) Cash Flows
  - b) Accounting Profit
  - c) Interest Rate on Borrowings
  - d) Last Dividend Paid
- 8) Which of the following is not a relevant cost in Capital Budgeting?
  - a) Sunk Cost
  - b) Opportunity Cost
  - c) Allocated Overheads
  - d) Both (a) and (c) above
- 9) Capital Budgeting Decisions are based on:
  - a) Incremental Profit
  - b) Incremental Cash Flows
  - c) Incremental Assets
  - d) Incremental Capital.
- 10) Which of the following does not affect cash flows proposal?
  - a) Salvage Value
  - b) Depreciation Amount
  - c) Tax Rate Change
  - d) Method of Project Financing
- 11) Cash Inflows from a project include:
  - a) Tax Shield of Depreciation
  - b) After-tax Operating Profits
  - c) Raising of Funds
  - d) Both (a) and (b).

- 12) Which of the following is not true with reference capital budgeting?
- a) Capital budgeting is related to asset replacement decisions
  - b) Cost of capital is equal to minimum required return
  - c) Existing investment in a project is not treated as sunk cost
  - d) Timing of cash flows is relevant.
- 13) Which of the following is not followed in capital budgeting?
- a) Cash flows Principle
  - b) Interest Exclusion Principle
  - c) Accrual Principle
  - d) Post-tax Principle
- 14) Depreciation is incorporated in cash flows because it:
- a) Is unavoidable cost
  - b) Is a cash flow
  - c) Reduces Tax liability
  - d) Involves an outflow
- 15) Which of the following is not true for capital budgeting?
- a) Sunk costs are ignored
  - b) Opportunity costs are excluded
  - c) Incremental cash flows are considered
  - d) Relevant cash flows are considered
- 16) Which of the following is not applied in capital budgeting?
- a) Cash flows be calculated in incremental terms
  - b) All costs and benefits are measured on cash basis
  - c) All accrued costs and revenues be incorporated
  - d) All benefits are measured on after-tax basis.
- 17) Evaluation of Capital Budgeting proposals is based on Cash Flows because:
- a) Cash Flows are easy to calculate
  - b) Cash Flows are suggested by SEBI
  - c) Cash is more important than profit
  - d) Cash Flows are suggested by RBI
- 18) Which of the following is not included in incremental A flows?
- a) Opportunity Costs
  - b) Sunk Costs
  - c) Change in Working Capital
  - d) Inflation effect
- 19) A proposal is not a Capital Budgeting proposal if it:
- a) Is related to Fixed Assets
  - b) Brings long-term benefits
  - c) Brings short-term benefits only
  - d) Has very large investment
- 20) In Capital Budgeting, sunk cost is excluded because it is:
- a) Of small amount
  - b) Not incremental
  - c) Not reversible
  - d) All of the above



- 3) Two competing projects have the following NPVs: Project X, + ₹ 5 lakh (with initial outlay of ₹ 25 lakh) and Project Y, + ₹ 4,20,000 (with initial outlay of ₹ 20,00,000). The company should opt for project X as it has higher NPV.
- 4) A project requires an initial investment of ₹ 10,00,000. The estimated cash inflows from the project are as follows: ₹ 3 lakh (year 1), ₹ 1 lakh (year 2), ₹ 3 lakh (year 3), ₹ 6 lakh (Year 4) and ₹ 4 lakh (year 5). The Payback of the project is 4 years.
- 5) A project requires an investment of ₹ 20 lakh. The estimated profit after tax for years 1-5 are: ₹ 3 lakh, ₹ 3 lakh, ₹ 3 lakh, ₹ 6 lakh and ₹ 8 lakh. The accounting rate of return is 21%
- 6) In the case of independent investment projects, if the NPV of the project is zero, IRR is equal to cost of capital.
- 7) A company has evaluated 3 investment proposals under IRR method, yielding different rates of return. Though the IRR values are varying, reinvestment rate of intermediate cash inflows is assumed to be the same for all these 3 proposals.
- 8) Since IRR is expressed in percentage figure, it is the best method for evaluating capital budgeting projects.
- 9) The more distant the CFAT, the higher is the present value of such cash flows.
- 10) NPV is the best method of evaluating long-term investment proposals.
- 11) Investment decisions and capital budgeting are same.
- 12) Capital budgeting decisions are long term decisions.
- 13) Capital budgeting decisions are reversible in nature.
- 14) Capital budgeting decisions do not affect the future Stability of the firm.
- 15) There is a time element involved in capital budgeting.
- 16) An expansion decision is not a capital budgeting decision
- 17) In mutually exclusive decision situation, the firm can accept all feasible proposals.
- 18) Capital budgeting and capital rationing are alternative to each other.
- 19) Correct capital budgeting decisions can be taken by comparing the cost with future benefits.
- 20) Future expected profits from investments are taken as returns from the investment for capital budgeting.
- 21) Cash flows are the appropriate measure of costs and benefits from an investment proposal.
- 22) Sunk cost is a relevant cost in capital budgeting.
- 23) The opportunity cost of an input is always considered, in capital budgeting.

- 24) Allocated overhead costs are not relevant for capital budgeting.
- 25) Cash flows and accounting profits are different.
- 26) Cash flows are same as profit before tax.
- 27) Net cash flow is on after-tax basis.
- 28) The term capital budgeting is used interchangeably with capital expenditure decision.
- 29) The key function of the financial management is the selection of the most profitable portfolio of capital investment.
- 30) Capital budgeting decisions are crucial, affecting all the departments of the firm.

### Fill in the Blanks

- 1) \_\_\_\_\_ present value tables can be used only when cashflows are uniform to determine NPV.
- 2) In the case of mixed stream of cash flows, \_\_\_ present value tables are used to determine NPV.
- 3) \_\_\_\_\_ determines the number of years required to recover initial investment outlay.
- 4) In the case of \_\_\_\_\_ investment proposals, IRR and NPV method provides the same result.
- 5) In the case of conflict in ranking, \_\_\_\_\_ method provides better result than \_\_\_\_\_ method.
- 6) Capital budgeting is concerned with \_\_\_\_\_ decisions.
- 7) Cash flow can be \_\_\_\_\_.
- 8) The Internal rate of return is to be determined by \_\_\_\_\_ method.
- 9) The shorter a discounted payback period is means the \_\_\_\_\_ (sooner/longer) a project or investment will generate cash flows to cover the initial cost.

### : Answer:

#### 1) Answers To MCQS

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

## 2) Answers For True or False Statements

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

## 3) Answers To Fill in The Blanks

1	Annuity	2	Simple	3	Payback method
4	Independent	5	NPV, IRR	6	investment
7	positive or negative	8	trial and error	9	sooner

## CHAPTER:09 WORKING CAPITAL MANAGEMENT

1. Working capital is calculated as \_\_\_\_\_
  - a) Core current assets less core current liabilities
  - b) Current assets less current liabilities
  - c) Core current assets less current liabilities
  - d) Liquid assets less current liabilities
2. The basic current liabilities are \_\_\_\_\_
  - a) Accounts payable and bills payable
  - b) Bank overdraft
  - c) Outstanding expenses.
  - d) All of the above
3. There are two concepts of working capital - gross and \_\_\_\_
  - a) Zero
  - b) Net
  - c) Cumulative
  - d) distinctive
4. Working capital is also known as \_\_\_\_\_ capital.
  - a) Current asset
  - b) Operating
  - c) Projecting
  - d) Operation capital
5. \_\_\_\_\_ working Capital refers to the firm's investment in current assets
  - a) Zero
  - b) Net
  - c) Gross
  - d) Distinctive
6. In finance, "working capital" means the same thing as \_\_\_\_\_ assets.
  - a) Current
  - b) Fixed
  - c) Total
  - d) All
7. \_\_\_\_\_ working capital refers to the difference between current assets and current liabilities.
  - a) Zero
  - b) Net
  - c) Gross
  - d) Distinctive
8. A \_\_\_\_\_ net working capital will arise when current assets exceed current liabilities.
  - a) Summative
  - b) Negative
  - c) Excessive
  - d) Positive
9. A \_\_\_\_\_ net working capital occurs when current liabilities are in excess of current assets
  - a) Positive
  - b) Negative
  - c) Excessive
  - d) Zero

10. \_\_\_\_\_ is not an advantages of trade credit.
- a) Buyout financing
  - b) Informality
  - c) Easy availability
  - d) Flexibility
11. \_\_\_\_\_ refers to the funds, which an Organisation must possess to finance its day-to-day operations.
- a) Retained earnings
  - b) Fixed capital
  - c) Working Capital
  - d) All of the above
12. Investment in current assets should be \_\_\_\_
- a) Just adequate
  - b) More
  - c) Less
  - d) Maximum
13. \_\_\_\_\_ varies inversely with profitability.
- a) Risk
  - b) Assets
  - c) Liquidity
  - d) Revenue
14. Capital intensive firms rely on \_\_\_\_
- a) Debt
  - b) Retained earnings
  - c) Short term debts
  - d) Equity
15. On the basis of \_\_\_\_\_, working capital is classified as gross working capital and net working capital.
- a) Concept
  - b) Time
  - c) Future
  - d) work
16. \_\_\_\_\_ cycle analyzes the accounts receivable, inventory, and accounts payable cycles in terms of a number of days?
- a) Business
  - b) Current asset
  - c) Operation
  - d) Operating
17. \_\_\_\_\_ method is not used for calculating working capital cycle
- a) Trial and error method
  - b) Regression analysis method
  - c) Percentage of sales method
  - d) Operating cycle approach
18. On the basis of \_\_\_\_\_, working capital may be classified as: 1) Permanent or fixed working capital. 2) Temporary or variable working capital
- a) Concept
  - b) Time
  - c) Future
  - d) work
19. Operating cycle is also called as \_\_\_\_
- a) Business cycle
  - b) Working capital cycle
  - c) Working cycle
  - d) Current asset cycle
20. Spontaneous financing consists of \_\_\_\_
- a) A line of credit
  - b) Short-term loans
  - c) Accounts receivable
  - d) Accounts payable



- 8) The longer the production cycle, the higher is the working capital needed or vice-versa.
- 9) There is a positive correlation between level of business activity and working capital needs of a business firm.
- 10) Efficiency of operation accelerates the pace of cash cycle of a firm but it does not affect its working capital requirements.
- 11) A firm should carry higher working capital than required to execute smoothly its planned level of business activity.
- 12) The entire sum of net profit earned by a corporate can, per-se, be considered a source of financing working capital.
- 13) Cash cost approach is an appropriate basis of computing working capital requirements of a business firm.
- 14) Working capital tied up with debtors should be estimated in relation to the selling price.
- 15) From the perspective of determining net working capital, all current liabilities including short-term sources of finance are considered.
- 16) Cash, in a narrow sense, implies currency and bank balances only.
- 17) Cash, in broad sense, includes marketable securities and time deposits in banks.
- 18) Transaction, precautionary and speculative are three motives for holding cash.
- 19) Speculative motive cash balance serves to provide a cushion to meet unexpected contingencies.
- 20) To meet the payment schedule and to minimize funds committed to cash balance are two basic objectives of cash management.
- 21) Costs caused due to inadequate cash are referred to as short costs.
- 22) Baumol model takes into account all motives of holding cash.
- 23) Miller-Orr model assumes that cash balances randomly fluctuate between an upper bound and lower bound.
- 24) Orgler's model is based on the use of a simple linear programming model.
- 25) Cash budget is based on operating cash flows.
- 26) The higher the period of cash cycle, the higher is cash turnover.
- 27) Time taken by the bank in collecting payment from the customer's bank is referred to as deposit float.
- 28) Investment in marketable securities is intended to obtain a return on temporarily idle cash.

29) The financial framework of analysis of various decision areas in receivable management should factor all measurable costs and benefits.

### Fill in the Blanks

- 1) Higher net working capital leads to \_\_\_ (higher / lower) liquidity and higher profitability.
- 2) Baumol model takes into account all motives of holding \_\_\_.
- 3) Working Capital equals the aggregate value of current assets \_ aggregate value of current liabilities.
- 4) \_\_\_\_\_ = Inventory alteration period + Receivables alteration period.
- 5) Cash conversion cycle = \_\_\_\_\_ - Payable delay period
- 6) Gross Working Capital refers to the firm's investment in \_.
- 7) There exists a close association between sales fluctuations and invested amounts in \_\_\_\_\_.
- 8) Under the conventional method, \_\_\_\_\_ enters into the calculation of working capital.
- 9) A company's operating cycle naturally consists of three most important activities: \_\_\_\_\_ and \_\_\_\_\_.
- 10) The \_\_\_\_\_ shows the time period over which additional no impulsive sources of working capital financing must be obtained to carry out the firm's actions.
- 11) The unit price of producing goods would not differ with the amount \_\_\_\_\_.
- 12) There are \_\_\_\_\_ among the borrowing and lending rates for savings and financing of equivalent risk
- 13) \_\_\_\_\_ deals with the likelihood that a firm will encounter financial difficulty, such as the incapability to pay bills on time.
- 14) Short-term interest rates tend to change \_\_\_ over time than long-term interest rates.
- 15) The \_\_\_\_\_ level of working capital investment is the level predictable to maximize shareholder's assets.
- 16) The objective of a corporation is to generate value for it's \_\_\_\_\_.
- 17) Under \_\_\_\_\_ working capital strategy, investment in current assets is extremely low.
- 18) Too much working capital is expensive, falling \_\_\_\_\_ and \_\_\_\_\_.

## Answer:

### A) Answers To MCQS

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

### B) Answers For True or False Statements

1	2	3	4	5	6	7	8	9	10
T	F	F	F	T	F	T	T	T	F
11	12	13	14	15	16	17	18	19	20
F	F	T	F	F	F	T	F	F	T
21	22	23	24	25	26	27	28	29	
T	F	T	F	F	F	F	T	T	

### C) Answers To Fill in The Blanks

1	higher	2	cash	3	minus
4	Operating cycle	5	Operating cycle	6	Current Assets
7	Current assets	8	Cash	9	Purchasing resources, producing the product, selling the product
10	Cash alteration cycle	11	Produced	12	Spreads
13	Risk	14	More	15	Most favourable
16	Shareholders	17	Aggressive	18	Profitability, return on capital

## CHAPTER: 11, 12 &amp; 13

1. Accounting Ratios are important tools used by
  - a) Managers
  - b) Researchers
  - c) Investors
  - d) All of the above
2. Net Profit Ratio Signifies:
  - a) Operational Profitability
  - b) Liquidity Position
  - c) Big-term Solvency
  - d) Profit for Lenders
3. Working Capital Turnover measures, the relationship of Working Capital with:
  - a) Fixed Assets
  - b) Sales
  - c) Purchases
  - d) Stock.
4. In Ratio Analysis, the term Capital Employed refers to:
  - a) Equity Share Capital
  - b) Net worth
  - c) Shareholders' Funds
  - d) Current Asset
5. Dividend Pay-out Ratio is:
  - a) PAT Capital
  - b)  $DPS \div EPS$
  - c)  $Pref. Dividend \div PAT$
  - d)  $Pref. Dividend \div Equity Dividend$
6. DuPont Analysis deals with:
  - a) Analysis of Current Assets
  - b) Analysis of Profit
  - c) Capital Budgeting
  - d) Analysis of Fixed Assets
7. In Net Profit Ratio, the denominator is:
  - a) Net Purchases
  - b) Net Sales
  - c) Credit Sales
  - d) Cost of goods sold
8. Inventory Turnover measures the relationship of inventory with
  - a) Average Sales
  - b) Cost of Goods Sold
  - c) Total Purchases
  - d) Total Assets
9. The term 'EVA' is used for:
  - a) Extra Value Analysis
  - b) Economic Value Added
  - c) Expected Value Analysis
  - d) Engineering Value Analysis
10. Return on Investment may be improved by:
  - a) Increasing Turnover
  - b) Reducing Expenses
  - c) Increasing Capital Utilization
  - d) All of the above
11. In Current Ratio, Current Assets are compared with:
  - a) Current Profit
  - b) Current Liabilities
  - c) Fixed Assets
  - d) Equity Share Capital



21. Suppliers and Creditors of a firm are interested in:
- a) Profitability Position
  - b) Liquidity Position
  - c) Market Share Position
  - d) Debt Position
22. Which of the following is a measure of Debt Service capacity of a firm?
- a) Current Ratio
  - b) Acid Test Ratio
  - c) Interest Coverage Ratio
  - d) Debtors Turnover
23. Gross Profit Ratio for a firm remains same but the Net Profit Ratio is decreasing. The reason for such behavior could be:
- a) Increase in Costs of Goods Sold
  - b) If Increase in Expense
  - c) Increase in Dividend
  - d) Decrease in Sales
24. Which of the following statements is correct?
- a) A Higher Receivable Turnover is not desirable
  - b) Interest Coverage Ratio depends upon Tax Rate
  - c) Increase in Net Profit Ratio means increase in Sales
  - d) Lower Debt-Equity Ratio means lower Financial Risk
25. Debt to Total Assets of a firm is 2. The Debt to Equity would be:
- a) 0.80
  - b) 0.25
  - c) 1.00
  - d) 0.75
26. Which of the following helps analyzing return to equity Shareholders?
- a) Return on Assets
  - b) Earnings Per Share
  - c) Net Profit Ratio
  - d) Return on Investment
27. Return on Assets and Return on Investment Ratios belong to:
- a) Liquidity Ratios
  - b) Profitability Ratios
  - c) Solvency Ratios
  - d) Turnover.
28. XYZ Ltd. has a Debt Equity Ratio of 1.5 as compared to 1.3 Industry average. It means that the firm has:
- a) Higher Liquidity
  - b) Higher Financial Risk
  - c) Higher Profitability
  - d) Higher Capital Employed.
29. Ratio Analysis can be used to study liquidity, turnover, profitability, etc. of a firm. What does Debt-Equity Ratio help to study?
- a) Solvency
  - b) Liquidity
  - c) Profitability
  - d) Turnover.
30. In Inventory Turnover calculation, what is taken in the numerator?
- a) Sales
  - b) Cost of Goods Sold
  - c) Opening Stock
  - d) Closing Stock.

## True or False

- 1) Cash from business operations can be determined from income statement.
- 2) Working capital from business operations can be determined from profit and loss account.
- 3) Sources of cash should always be more than uses of cash, in the context of cash flows statement.
- 4) Interest paid on debentures is a part of operating activities.
- 5) Interest received on two-month deposits in bank is shown under investing activities.
- 6) Sources of cash and uses of cash are to be equal
- 7) Cash flows are inflows and outflows of cash and cash-equivalents.
- 8) Revaluation of building affects cashflows.
- 9) Sale proceeds from machinery, being a source of finance, form part of financing activities.
- 10) Cash flows statement is mandatory for all business firms.
- 11) In normal circumstances, a firm has positive cash from operations and negative cash flow from investing activities.
- 12) Current ratio and acid-test ratio of a business firm are virtually the same; this implies that the firm has low investment in inventory.
- 13) A company's current ratio is 2.0. If it uses cash to pay creditors, this transaction would cause a decrease in current ratio.
- 14) Solvency ratios measure the firm's ability to cater to the obligations arising out of long-term debt.
- 15) Equity funds are greater than equity capital in a loss-incurring firm.
- 16) In general, low turnover ratios are desirable.
- 17) Earnings yield is determined dividing EPS by acquisition price per equity share.
- 18) Return on equity funds is determined by dividing EAT by average net worth.
- 19) Internal growth rate is the maximum rate at which the firm can grow without external financing of any kind.
- 20) The sustainable growth rate is the maximum rate at which the company can grow by using retained earnings.
- 21) It is conceptually correct to determine stock turnover ratio (finished goods) by dividing cost of goods sold by average stock.

## Fill in the Blanks

- 1) Cash flows statement (based on Ind AS-7) indicates change in\_\_\_\_\_.
- 2) Decrease in creditors\_\_\_\_cash.
- 3) Interest received on long-term investments is shown under\_\_\_\_\_.
- 4) Decrease in inventory\_\_\_\_cash.
- 5) Increase in pre-paid expenses\_\_cash.
- 6) Cash payments to suppliers for goods and services are shown under\_\_\_\_\_.
- 7) Cash-flow statement (based on Ind AS-7) for listed companies should be presented as per the \_\_\_\_\_method.
- 8) Cash payments to acquire long-term assets form part of\_activities.
- 9) Buy back of shares is shown under\_\_activities).
- 10)Dividends paid to shareholders are classified as\_\_activities).
- 11)An analyst applied the DuPont System to the following data of a company: (a) equity turnover 4.2, (b) net profit margin 5.5%, (c) total assets turnover 2.0 and (d) dividend payout ratio 30%; the company's rate of return on equity is\_\_\_\_\_
- 12)Four-times stock turnover ratio implies\_\_\_\_\_months inventory holding period.
- 13)The following information is given about a company: (a) current assets ₹ 900 lakh and current liabilities ₹ 450 lakh in current year and (b) current assets ₹ 1,100 lakh and current liabilities ₹ 530 in previous year. The approximate percentage decrease in current ratio is\_\_\_\_\_.
- 14)Presently, current assets and current liabilities of a company are ₹ 16 lakh and ₹ 8 lakh respectively. The current ratio will on purchase of new machinery of ₹ 6 lakh.
- 15)Purchase of treasury bills will\_acid-test ratio.
- 16)Assume that the company's existing debt-equity ratio is 2:1, the ploughing back of profits by a company will\_\_\_\_\_ it.
- 17)A two-months debtor collection period implies that debtor's turnover ratio is \_\_\_\_\_.
- 18)\_\_\_\_\_ is a more rigorous test of the solvency position of a business firm.
- 19)ROR on shareholders' equity is computed dividing EAT by\_.
- 20)Issue of 12% preference shares will\_debt-equity ratio of a corporate enterprise.

## Answer

### 1) Answers To MCQS

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

### 2) Answers For True or False Statements

1	2	3	4	5	6	7	8	9	10	11	12
F	T	F	F	F	F	T	F	F	F	F	T
13	14	15	16	17	18	19	20	21			
F	T	F	F	F	F	T	F	T			

### 3) Answers To Fill in The Blanks

1	Cash and Cash Equivalentents	2	Decreases
3	Investing Activities	4	Increases
5	Decreases	6	Operating
7	Indirect	8	Investing
9.	Financing	10	Financing
11	23.1%	12	3
13	4.0%	14	Decrease
15	Not affect	16	Decrease
17	6 Times	18	Debt Service Coverage Ratio
19	Shareholders' Funds	20	Decrease

## CHAPTER:14 Data Analytics

- 1) Following are the benefits of data analytics
  - a) Improves decision making process
  - b) Increase in efficiency of operations
  - c) Improved service to stakeholders
  - d) All of the above
- 2) Following are the techniques of data mining
  - a) Association rules
  - b) Neural network
  - c) Decision tree
  - d) All of the above
- 3) XML is the abbreviated form of
  - a) Extensible mark-up language
  - b) Extended mark-up language
  - c) Extendable mark-up language
  - d) Extensive mark-up language
- 4) XBRL is the abbreviated form of
  - a) extensible Business Reporting Language
  - b) extensive Business Reporting Language
  - c) extended Business Reporting Language
  - d) extensive Business Reporting Language
- 5) Following are the types of cloud computing
  - a) Private cloud
  - b) Public cloud
  - c) Hybrid cloud
  - d) All of the above

**ANSWER:**

1	2	3	4	5
D	D	A	A	D

## PAST QUESTION PAPERS

JUNE 24

- 1) Selling shares without owing them, to buy them back at a future date at a lower price in expectation that price will drop is known as
  - a) Call option
  - b) Put option
  - c) Long position
  - d) **Selling short**
- 2) A 91-day Treasury Bill with face value of 100 is issued at 98. The annualized yield on the same would be \_\_\_\_\_ (Assume 365 days a year)
  - a) 3.09%
  - b) 8.18%
  - c) 14.09%
  - d) 13.09%
- 3) shows that the current dividend depends partly on current earnings and partly on previous year's dividend.
  - a) Gordon's Model
  - b) M.M. Model
  - c) Dividend Discount Model
  - d) Lintner Model
- 4) Rajesh Polymers Ltd. issued 4,00,000, 9% perpetual debentures at a premium of 10%. The costs of floatation are 2%. The tax rate is 50%. What is the after-tax cost of debt?
  - a) 4.15%
  - b) 4.17%
  - c) 14.17%
  - d) 4.20%
- 5) The pecking order theory has emerged as an alternative theory to
  - a) Trade off theory
  - b) The traditional approach
  - c) Net income approach
  - d) Net operating income approach
- 6) How long it will take for 1,00,000 to double at a compound rate of interest of 12% per annum approximately?
  - a) Five years
  - b) Six years
  - c) Seven years
  - d) Eight years
- 7) Which of the following is not an objective of Digitalization?
  - a) Wide spread access of data
  - b) Preservation of data
  - c) Large Group of users
  - d) Large physical storage space
- 8) Following information has been taken from the Balance Sheet of MJK Lad. 8% debentures payable 15 Lakh, 12% preference shares 15 Lakh and ordinary shareholders' equity is 40 Lakh. You have to calculate the capital gearing ratio of the company.
  - a) 4:2
  - b) 4:3
  - c) 4:7
  - d) 4:9
- 9) Cluster analysis is the process of assigning a set of data to subset so that observations can be made. Cluster analysis is part of
  - a) Supervised Learning
  - b) Unsupervised Learning
  - c) Semi Supervised Learning
  - d) Reinforcement Learning

- 10) Systematic risk of the firm is 1.5, 182 days treasury bills currently yield 9%, expected yield on the market portfolio of assets is 14%. Determine the cost of equity capital based on the given data.
- a) 15%                      b) 15.5%                      c) 16%                      d) 16.5%
- 11) Which of the following is not a technique of data mining?
- a) KNN algorithm                      b) Neural network  
c) Decision tree                      d) Predictive analytics
- 12) The cash outlay for a project is 2 lakh. The cash inflows that are expected to be generated are 1,20,000 at the end of the first year and 1,60,000 at the end of the second year. If the discounting rate is 10%, then the profitability index is
- a) 1.44                      b) 1.25                      c) 1.21                      d) 1.42
- 13) Average collection period is 3 months, cash sales and average receivables are 3,00,000 and 4,00,000 respectively. The total amount of sales will be
- a) ₹18,00,000                      b) 19,00,000  
c) 22,00,000                      d) ₹25,00,000
- 14) Under ABC Analysis method of stock control, 'A' category items are
- a) smaller in quantity but larger in value  
b) larger in quantity but smaller in value  
c) smaller in quantity and smaller in value  
d) larger in quantity and larger in value
- 15) If the profit after taxes of a company is 5,40,000, the preference dividend is 60,000 and the dividend payable to 1,60,000 equity shares is 2 per share, then the equity dividend coverage ratio is
- a) 1.50 times                      b) 1.62 times  
c) 1.55 times                      d) 1.80 times

**ANSWER:**

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
D	B	D	B	A	B	D	B	B	D	D	C	B	A	A

Dec:23(N)

- 1) Which one of the following statements is correct concerning the weighted average cost of capital (WACC) of any firm?
  - a) The WACC may decrease as a firm's debt-equity ratio increases.
  - b) In the computation of WACC, weight assigned to the preferred stock is based on the coupon rate multiplied by the par value of the stock.
  - c) A firm's WACC will increase as the corporate tax rate increases.
  - d) The WACC does not consider redeemable preference shares of the firm.
- 2) X Ltd. is considering an investment proposal involving an initial cash outlay of 20,00,000. The proposal has an expected life of 7 years and zero salvage value. At a required rate of return of 12%, the proposal has a profitability index of 1.182. Calculate the present value of cash inflows. The present value of an annuity of 1 for 7 years at 12% discount is 4.5638.
  - a) 22,64,000
  - b) 23,70,000
  - c) 23,64,000
  - d) 22,70,000
- 3) The signs of large inventory build-up in anticipation of price increase in future can be best diagnosed from
  - a) Asset turnover ratio
  - b) Working Capital turnover ratio
  - c) Inventory turnover ratio
  - d) Current ratio
- 4) MJ Ltd. has issued 5,000, 10% Debentures of 100 each. The rate of inflation is 6%. Calculate the real cost of debt.
  - a) 3.77%
  - b) 3.90%
  - c) 4.10%
  - d) 4.57%
- 5) A commercial paper of the face value of 10,00,000 is issued at 9,60,000 for a maturity period of 120 days. The annual financing cost of the commercial paper is
  - a) 25%
  - b) 14.5%
  - c) 12.7%
  - d) 4%
- 6) If the cost of the project is 22,84,000, the useful life is 5 years and the annuity is 8,00,000, then the Pay-Back Period is
  - a) 3 years
  - b) 2 years 11 months
  - c) 2 years 9 months
  - d) 2 years 8 months
- 7) If the Annual demand of raw materials is 20,000 units, the price per unit is 2, the ordering cost per order is 2,000 and the carrying cost percentage of average inventory is 10%, then the number of orders based on EOQ will be:
  - a) 3 orders
  - b) 2 orders
  - c) 1 order
  - d) 4 orders
- 8) If the average receivables are 3,25,000, the cash sales are 2,50,000 and the average collection period is 2 months, then the amount of sales is:
  - a) 20,00,000
  - b) 22,00,000
  - c) 19,50,000
  - d) 21,50,000

- 9) The Piotrowski F Score which measures a stock's financial condition is based on:
- a) Binary scoring system based on nine parameters.
  - b) A scaled scoring system based on nine parameters.
  - c) Binary scoring system based on ten parameters.
  - d) A scaled scoring system based on ten parameters.
- 10) The constant dividend growth model is useful for
- a) Seasonal Industry
  - b) Mature Industry
  - c) Capital Oriented Industry
  - d) Growth Oriented Industry
- 11) OASIS committee has given recommendations in the area of
- a) Pension Policy
  - b) Hedge Funds
  - c) Private Equity Funds
  - d) Venture Capital
- 12) \_\_\_\_\_ is annual growth of Investment over a specific period of time. (xii)
- a) Perpetuity
  - b) CAGR
  - c) Annuity
  - d) None of the above
- 13) In which scale used for quantifying qualitative data is an arbitrary zero point used?
- a) 'Nominal Scale
  - b) Ratio Scale
  - c) Ordinal Scale
  - d) Interval Scale
- 14) \_\_\_\_\_ represents a project timeline or activity changes across time.
- a) Bubble Chart
  - b) Gantt Chart
  - c) Density Map
  - d) Scatter Plots
- 15) \_\_\_\_\_ architecture enables business to store sensitive data on premises and access it though app hosted in the public cloud.
- a) Private Cloud
  - b) Public Cloud
  - c) Hybrid Cloud
  - d) All of the above

**ANSWER:**

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
A	C	C	A	C	B	C	B	A	B	A	B	D	B	C



JUNE 23 (N)

1) The capital structure of X Ltd. consists of 40% Equity Share Capital, 40% Preference Capital and 20% Debt. The after-tax cost of the Preference Capital and Debt are 18% and 9% respectively. The weighted average cost is 19%. X Ltd. paid currently a dividend of 13 per share. The current market price of its equity share is 112. Find the growth rate.

- a) 9%                      b) 10%                      c) 11%                      d) 12%

2) What will be the present value of a perpetuity of 10,000 payable at the beginning of each period and growing @ 5% p.a. and the interest rate is 10% p.a.?

- a) ₹2,00,000                      b) 2,10,000  
c) ₹2,20,000                      d) 2,30,000

3) Compute the beta of Security X from the following information:

Standard Deviation of Security X	15%
Standard Deviation of Market Portfolio	12%
Regression Coefficient between returns of Security X and Market Portfolio	0.80

- a) 1.00                      b) 1.25                      c) 0.80                      d) 1.50

4) During the Book Building process, if the floor of the Price Band is 150 then the cap of the Price Band can at maximum be

- a) 175                      b) 180                      c) 200                      d) 225

5) Quarterly demand of Product ZED-16250 units, 2.5 units of Product ZED are obtained from one unit of raw material. Opening Stock of material is 14,000 units and Closing Stock will be 20% more than opening stock. The company incurs a handling cost of 10 plus freight of 65 per order. Storage Cost 0.50 per unit per month, Interest Cost 10% p.a., Obsolescence Cost 2% pa, Purchase Price of Input Unit 50 per unit. How frequently should orders be placed assuming 360 days in a year?

- a) 3 days                      b) 6 days  
c) 7.5 days                      d) 15 days

6) Funds required 10,00,000 to be arranged by the issue of 30% Equity Shares of 10 each to be issued at 20, 60% in 10% Debt and Balance by 15% Preference Shares, Tax Rate: 25%. Return on Investment (ROI) is 30%. Return on Equity Shareholders Funds (ROE) will be

- a) 46.875%                      b) 47.50%  
c) 55%                      d) 60%



## JUNE 23 (O)

- 1) Annual Cost Saving 80,000, Applicable Present Value of Annualized Cash flows for 1 is 2-855, Profitability index 1-064, Salvage value 0. NPV will be:
  - a) ₹14,617-60
  - b) 14,671-60
  - c) 14,761-60
  - d) None of the above
- 2) XLtd and Y Ltd are identical in every respect except that X Ltd does not employ Debt in its capital structure whereas Y Ltd employs 10% Debentures amounting to 4 Lakhs. EBIT is 2,40,000. Equity Capitalization Rate of X Ltd is 20%. Tax Rate 25%. Assuming that all assumptions of M-M model are met. Which of the following is false?
  - a) Value of XLtd = ₹9,00,000 and Value of YLtd = ₹ 10,00,000
  - b)  $k_e$  of YLtd = 25%
  - c)  $k_D$  of and  $k_E$  of XLtd = 20% YLtd = 18%
  - d) None of the above
- 3) The capital structure of X Ltd. consists of 40% Equity Share Capital, 40% Preference Capital and 20% Debt. The after-tax cost of the Preference Capital and Debt are 15% and 7.20% respectively. The weighted average cost is 15.44%. X Ltd. paid currently a dividend of 4 per share. The current market price of its equity share is 44. Find the growth rate.
  - a) 8%
  - b) 9%
  - c) 10%
  - d) 11%
- 4) Total Sales 125 lakhs, Credit Sales being four times the cash sales, Variable Cost 85% of Sales, Bad Debt 5%, Selling Price per unit 500, Average Cost per unit 450, Credit Terms are 3/24, Net 40, 25% of the credit customers avail Cash Discount facility, Required Rate of Return (pre-tax) 16%, Tax Rate 25%. Calculate the Opportunity Cost of Investment in Receivable (assume 360 days in a year).
  - a) ₹1,08,000
  - b) 1,20,000
  - c) 1,40,000
  - d) None of the above
- 5) The company maintains a minimum cash balance of 10,00,000. The standard deviation of the company's daily cash flow is 3,60,000. The annual interest rate is 12%. The transaction cost of buying & selling securities is 180 per transaction. (Assume 360 days in a year). Which of the following is false as per the Miller-Orr model?
  - a) Upper limit=21,23,245
  - b) Return Point=13,74,415
  - c) Average Cash Balance 14,99,220
  - d) None of the above
- 6) Which among the following is not an assumption of the Net Income Approach?
  - a) No Corporate Taxes
  - b) No Change in Risk Perception
  - c)  $K_d = K_e$
  - d) Value of the firm constant.

### ANSWER:

1	2	3	4	5	6
D	D	C	A	D	C

DEC 22

- 1) If the Fixed Cost is 50% of EBIT, then Operating Leverage would be
  - a) 2
  - b) 2.5
  - c) 3
  - d) 3.5
- 2) If Annual Growth Rate is 50% of the Cost of Equity and the Dividend Yield is 9% then the Cost of Equity would be
  - a) 18%
  - b) 20%
  - c) 22%
  - d) 25%
- 3) Which among the following is not an assumption of the Net Operating Income Approach?
  - a) Value of the Firm remains the same.
  - b) Cost of Debt remains the same.
  - c) Cost of Capital remains the same.
  - d) Cost of Equity remains the same.
- 4) Calculate the Risk-Free rate of return if the value of beta ( $\beta$ ) is 1.5, Market return- 13% and Cost of Equity = 16%.
  - a) 5.5%
  - b) 6.25%
  - c) 6.75%
  - d) 7%
- 5) In Cash Budget, Interest on Fixed Deposits made in a Bank with a maturity period of 3 years is
  - a) Cash Flows from Operating Activity
  - b) Cash Flows from Financing Activity
  - c) Cash Flows from Investing Activity
  - d) None of the above
- 6) If A Annual Consumption of Input (in Units), O Ordering Cost per order and C Carrying Cost per unit per annum, calculate the Ordering Cost per Annum at the Order Size of  $\sqrt{\frac{240}{c}}$ 
  - a)  $\sqrt{AOC}$
  - b)  $2\sqrt{AOC}$
  - c)  $\sqrt{AOC/2}$
  - d)  $\sqrt{2AOC}$

ANSWER:

1	2	3	4	5	6
A,B,C,D	B	D	D	A	A

JUNE 22

- 1) ROI (Return on Investment) can be decomposed into the following ratios:
  - a) Overall Turnover Ratio and Current Ratio
  - b) Working Capital Turnover Ratio and Net Profit Ratio
  - c) Net Profit Ratio and Fixed Assets Turnover
  - d) Net Profit Ratio and Overall Turnover Ratio
- 2) MNC Consciously manipulate the transfer Price as an instrument of maximizing achievement of
  - a) Investors' Goals
  - b) Divisional Goals
  - c) Managers' Goals
  - d) Corporate Goals
- 3) Which of the following would be consistent with a more aggressive approach to financing working capital?
  - a) Financing permanent inventory buildup with long - term debt.
  - b) Financing short - term needs with short - term funds
  - c) Financing some long -term needs with short-term funds
  - d) Financing seasonal needs with short - term funds
- 4) RUB LTD earned a Profit of Rs 240000 during the year 2020-21. If its P/V Ratio is 25%, what will be the Margin of Safety?
  - a) Rs 880000
  - b) Rs 900000
  - c) Rs 960000
  - d) Rs 980000
- 5) Which of the following Concepts suggests a basis for Correct staffing in Continuously expanding production?
  - a) Growth Curve
  - b) Learning Curve
  - c) Exponential Curve
  - d) Production Curve
- 6) A favorable material price variance coupled with an unfavorable material usage variance would most likely result from\_\_\_\_
  - a) changes in the product mix
  - b) Problems with processing machines
  - c) the purchase of low-quality materials
  - d) problems with labour efficiency
- 7) Profitability and Liquidity ratios are used for:
  - a) Normative purposes only
  - b) Predictive purposes only
  - c) Both Normative and Predictive purposes
  - d) None of these

- 8) Internal Rate of return is the discounting factor which:
- a) Ensures that the present value of Net Cash Inflow is  $>$  the Net Cash Outflow
  - b) Ensures that the present value of Net Cash Inflow is  $<$  the Net Cash Outflow
  - c) None of these
  - d) Equates the present value of Net Cash Inflow to the Net Cash Outflow
- 9) Decision making Concerns the-
- a) Future
  - b) Past
  - c) None of these
  - d) Future and Past both
- 10) The degree of operating Leverage and degree of financial Leverage of VIM Ltd are 2 and 1.5 respectively. If the Sale increases by 10% what will be the percentage change in EPS ?
- a) 15% increase
  - b) None of these
  - c) 10% increase
  - d) 30% increase
- 11) EBIT-EPS chart is used for which of the following purpose?
- a) Determining the Price-Earning ratio
  - b) Showing changes of EPS overtime
  - c) Getting EPS levels for varying levels of EBIT
  - d) Impact of sales on EBIT
- 12) Corporate financing instruments which have an unlimited life, voting right and right to receive dividends are known as
- a) Non-Redeemable Preference Shares
  - b) Redeemable Preference Shares
  - c) Equity Shares
  - d) Debentures
- 13) UBI Ltd has EBIT of Rs 100000. The Company makes use of Debt and Equity Capital. The Company has 10% debentures of Rs 400000. If the Company's equity capitalization rate is 15% What will be value of UBI Ltd?
- a) Rs 400000
  - b) Rs 700000
  - c) Rs 800000
  - d) Rs 600000
- 14) ABY Ltd has paid dividend of Rs 3 per share of Rs 10 each last year and it is expected to grow @ 10% next year. If the market price of share is Rs 60 what will be the Cost of equity?
- a) 12.00%
  - b) 12.50%
  - c) 16.50%
  - d) 15.50%
- 15) Which of the Statements about factoring is true ?
- a) The client is able to get 100% of total invoice as credit facility
  - b) Factoring is the purchase of the invoice of the client
  - c) Factoring is employed to finance domestic business only
  - d) Factoring is used for medium term financing at a fixed rate of interest

**ANSWER:**

<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>	<b>10</b>
<b>D</b>	<b>D</b>	<b>C</b>	<b>C</b>	<b>B</b>	<b>C</b>	<b>C</b>	<b>D</b>	<b>A</b>	<b>D</b>
<b>11</b>	<b>12</b>	<b>13</b>	<b>14</b>	<b>15</b>					
<b>C</b>	<b>C</b>	<b>C</b>	<b>D</b>	<b>B</b>					

DEC 19

- 1) A firm determines the shareholders' wealth by taking
  - 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.
- 2) Capital Budgeting techniques which considers the time value of money is based on
  - a) Cash Flows of the organisation
  - b) Accounting Profit of the organisation
  - c) Interest Rate on Borrowings
  - d) Last Dividend Paid
- 3) Debt Financing is a cheaper source of finance because of
  - a) Time Value of Money.
  - b) Rate of Interest.
  - c) Tax-deductibility of Interest.
  - d) Dividends not Payable to lenders.
- 4) What should be the optimum Dividend payout ratio, when  $r=12\%$  and  $K_e=10\%$ ?
  - a) Zero
  - b) 50%
  - c) 12%
  - d) 100%
- 5) The term Float is used in
  - a) Receivable Management
  - b) Cash Management
  - c) Marketable Management
  - d) Inventory Management

**ANSWER:**

1	2	3	4	5	6
B	A	C	A	B	A

JUNE 19

- 1) Objective of Financial Management is
  - a) Management of Liquidity
  - b) Maximization of Profit
  - c) Maximization of Shareholders' Wealth
  - d) Management of Fixed Assets
- 2) Which of the following variables is not known in Internal Rate of Return?
  - a) Initial Cash Flows
  - b) Discount Rate
  - c) Terminal Inflows
  - d) Life of the Project
- 3) Cost of Capital refers to
  - a) Floatation Cost
  - b) Dividend
  - c) Required Rate of Return
  - d) None of the above
- 4) Working Capital Management involves financing and management of
  - a) All Assets
  - b) All Current Assets
  - c) Cash and Bank Balance
  - d) Receivables and Payables
- 5) All listed companies are required to prepare
  - a) Funds Flow statement
  - b) Cash Flow Statement
  - c) Statement of Affairs
  - d) All of the above
- 6) Ratio Analysis can be used to study liquidity, turnover, profitability etc., of a firm. What does Debt-Equity Ratio help to study?
  - a) Solvency
  - b) Liquidity
  - c) Profitability
  - d) Turnover

**ANSWER:**

1	2	3	4	5	6
C	B	C	B	B	A

DEC 18

- 1) Which of the following does not help to increase Current Ratio?
  - a) Issue of Debentures to buy Stock
  - b) Issue of Debentures to pay Creditors
  - c) Sale of Investment to pay Creditors
  - d) Avail Bank Overdraft to buy Machine
- 2) Which of the following is not considered while preparing cash budget?
  - a) Accrual Principal.
  - b) Difference in Capital and Revenue items.
  - c) Conservation Principle.
  - d) All of the above
- 3) Cost of capital may be defined as:
  - a) Weighted Average cost of all debts.
  - b) Rate of Return expected by Equity Shareholders.
  - c) Average IRR of the Projects of the firm.
  - d) Minimum Rate of Return that the firm should earn.
- 4) At Indifference level of EBIT, different capitals have:
 

a) same EBIT.	b) same EPS.
c) same PAT.	d) same PBT.
- 5) ABC Analysis is used in
 

a) Inventory Management.	b) Receivables Management.
c) Accounting Policies.	d) Corporate Governance.
- 6) Which of the following is not incorporated in Capital Budgeting?
 

a) Tax-Effect.	b) Time Value of Money.
c) Required Rate of Return.	d) Rate of Cash Discount.

**Answer:**

1	2	3	4	5	6
D	D	D	B	A	D

JUNE 18

- 1) Which of the following is a Profitability Ratio?
  - a) Proprietary Ratio
  - b) Debt-Equity Ratio
  - c) Price-Earnings Ratio
  - d) Fixed Asset Ratio
- 2) Which of the following is not a source of fund?
  - a) Issue of Capital
  - b) Issue of Debenture
  - c) Decrease in Working Capital
  - d) Increase in Working Capital
- 3)  $\beta$  (Beta) of a security measure its
  - a) Divisible Risk
  - b) Financial Risk
  - c) Market Risk
  - d) None of the above
- 4) The following is not a Discounted Cash Flow Technique:
  - a) NPV
  - b) PI
  - c) ARR
  - d) IRR
- 5) The 'Dividend-Payout Ratio' is equal to
  - a) The Dividend yield plus the capital gains yield
  - b) Dividends per share divided by Earning per Equity Share
  - c) Dividends per share divided by par value per share
  - d) Dividends per share divided by current price per share
- 6) If EBIT ₹1,00,000, Fixed Assets ₹2,00,000, Sales ₹10,00,000 and Variable Cost ₹7,00,000. Then, the Operating Leverage will be
  - a) 2
  - b) 3
  - c) 6
  - d) 4

Answer:

1	2	3	4	5	6
C	D	C	C	B	B