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CMA-INTER

FINANCIAL MANAGEMENT

PAST PAPERS - OBJECTIVE QUESTIONS

CHAPTER - 1 FUNDAMENTALS OF FINANCIAL MANAGEMENT

Q. 1. Ascertain the future value of annuity of ₹ 25,000 at the end of 6 years at 9% p.a. compounded annually. Assume that the amount is deposited at the beginning of every year.

Ans. Future value of annuity = Amount of annuity x Cumulative future value of 1 for six years.

$$= ₹ 25,000 \times 8,201 = ₹ 2, 05,025.$$

Q. 2. Mr. X expects to receive ₹ 2, 00,000 at the end of three years. What would be the present value if the rate of discount is 10%?

Ans. Present value factor for 3 years at 10% is 0.7513

$$\text{Present value} = 2, 00,000 \times 0.7513 = ₹ 1, 50,260.$$

Q. 3. B's cash flows are ₹ 1,000 on 1-7-2014; ₹ 1,100 on 1-7-2016; ₹ 1,000 on 1-7-2018; considering annual rests, interest rate of 10% and using P.V. factor only up to one decimal, calculate the present value of his cash flows as on 1-7-2016.

$$\text{Ans. P.V. on 1.7.2016} = ₹ [(1.2 \times 1,000) + (0.8 \times 1,000) + (1 \times 1,100)] = ₹ 3,100$$

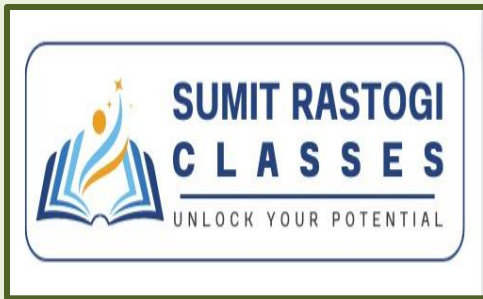
Q. 4. The risk-free rate of return is 10%, market rate of return is 12.25 % and beta (B) = 1.25. Find the cost of equity using CAPM method.

$$\text{Ans. } K_e = R_f + B (R_m - R_f) = 10\% + 1.25 \times 2.25\% = 10 + 2.813 = 12.813\%$$

Q. 5. Which of the following is the main objective of financial management?

- (A) Revenue Maximisation
- (B) Profit Maximisation
- (C) Wealth Maximisation
- (D) Cost Minimisation

Ans. (C) Wealth Maximisation



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Q.6. Which one of the following activities is outside the purview of financing decision in financial management?

- (A) Identification of the source of funds
- (B) Measurement of the cost of funds
- (C) Deciding on the time of raising the funds
- (D) Deciding on the utilization of the funds.

Ans. (D) Deciding on the utilization of the funds

Q.7. Which one of the following activities is outside the purview of dividend decision in financial management?

- (A) Identification of the profit after taxes
- (B) Measurement of the cost of funds
- (C) Deciding on the pay-out ratio
- (D) Considering issue of bonus shares to equity shareholders.

Ans. (B) Measurement of the cost of funds

Q. 8. "Shareholders' wealth" in a firm is reflected 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.

Ans. (D) the market price per share of the firm.

Q. 9. Objective of Financial Management is:

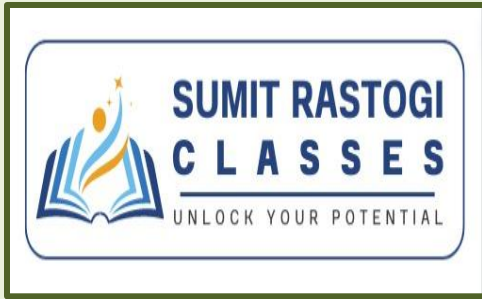
- (A) Management of Liquidity
- (B) Maximization of Profit
- (C) Maximization of Shareholders' Wealth
- (D) Management of Fixed Assets.

Ans. (C) Maximization of Shareholders' Wealth

Q. 10. β (Beta) of a security measures its:

- (A) Divisible Risk
- (B) Financial Risk
- (C) Market Risk
- (D) None of the above.

Ans. (C) Market Risk



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Q.11. Calculate the Risk-Free rate of return if the value of beta (B) is 1.5, Market return= 13% and Cost of Equity = 16%.

- (A) 5.5%
- (B) 6.25%
- (C) 6.75%
- (D) 7%

Ans. (D) 7%

Working Note:-

$$K_e = R_f + \text{Beta} [R_m - R_f]$$

$$16 = R_f + 1.5 [13 - R_f]$$

$$16 = R_f + 19.5 - 1.5 R_f$$

$$0.5 R_f = 3.5$$

$$R_f = 7\%$$

Q.12. 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

Ans. (B) 2,10,000

Working Note:

Present Value of Year end Perpetuity with Growth = Perpetuity / (Interest rate - growth Rate)
 = $10,000 / (0.10 - 0.05) = ₹ 2,00,000$
 Present Value of Perpetuity at the beginning of each year = $2,00,000 + 10,000 = ₹ 2,10,000$

Q.13. Compute the beta of Security X from the following information:

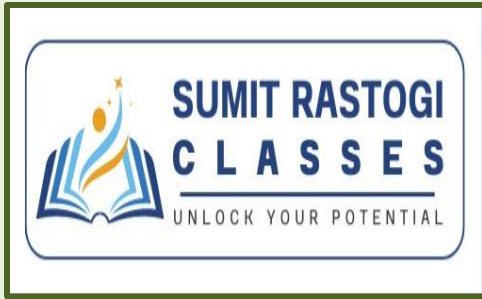
Standard Deviation of Security X	15%
Standard Deviation of Market Portfolio	12%
Regression Coefficient between returns of Security X and Market Portfolio	0.80

- (A) 1.00
- (B) 1.25
- (C) 0.80
- (D) 1.50

Ans. (A) 1.00

Working Note:

$$\text{Beta} = 0.80 \times 15 / 12 = 1.00$$



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CHAPTER- 2 INSTITUTIONS AND INSTRUMENTS IN FINANCIAL MARKETS

Q. 1. In India, commercial papers can be issued in multiples of ₹.....

Ans. 5 lakhs

Q. 2. Which of the following forms of equity financing is especially designed for funding High Risk & High Reward projects?

- (A) ADR
- (B) GDR
- (C) FCCB
- (D) Venture Capital.

Ans. (D) Venture Capital

Q.3. 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

Ans. (B) 180

Working Note: Maximum Cap Price = 120% x Floor Price, 120% x 150 = 180.

Q.4. The RBI offers 91 Days Treasury Bills. X makes a bid at ₹ 98.93. Calculate the Yield to Price at the bid made by X.

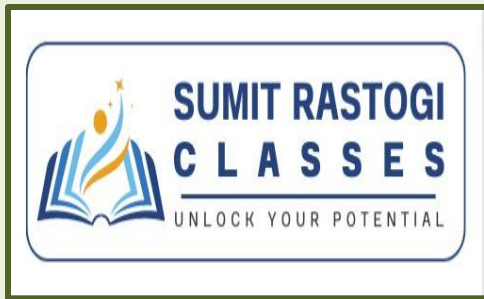
- (A) 4.3382%
- (B) 4.2918%
- (C) 1.0700%
- (D) 1.0816%

Ans. (A) 4.3382%

Working Note: Yield = $[(100 - 98.93) \times 100 / 98.93] \times 365 / 91 = 4.3382\%$

Q. 5. Correlation Coefficient of Portfolio with market 0.8, Variance of Market Portfolio is 4/9th of Variance of Security, Cost of Equity 20%, Average Return on Market Portfolio 17.5%. Calculate the Risk-Free Rate of Interest on Govt. Treasury Bonds.

Ans. Variance of Market = 4/9 X Variance of Security
Std. Deviation of Market = 2/3 X Std. Of Security
Std. Deviation of Security/Std. Deviation Of Market = 3/2



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$$\text{Beta} = 0.80 \times 3/2 = 1.2$$

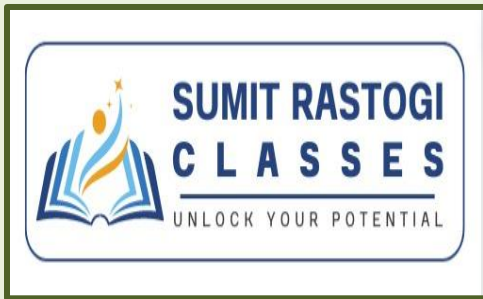
$$K_e = R_f + \text{Beta} (R_m - R_f)$$

$$20 = R_f + 1.2 (17.5 - R_f)$$

$$20 = R_f + 21 - 1.2 R_f$$

$$-1 = -0.2 R_f$$

$$R_f = 5\%$$



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CHAPTER - 3 TOOLS FOR FINANCIAL ANALYSIS

Q. 1. In 2011-12, XYZ Pharma Ltd. had a profit margin of 20% and asset turnover of 3 times. At the end of year 2012-13, the profit margin decreases by 5% and asset turnover increased to 4 times. The return on investment for 2012-13 will be:

- (A) 80%
- (B) 60%
- (C) 50%
- (D) 70%.

Ans. (B) 60%

Working Note:

Revised Net Profit Ratio = $20 - 5 = 15\%$
 Revised asset turnover Ratio = 4 times.
 Hence, ROI = $15\% \times 4 = 60\%$.

Q. 2. The proprietor's fund is ₹45,00,000 and ratio of fixed assets to proprietor's funds is 0.75. Find the amount of net working capital.

Ans. ₹11,25,000

WN: Fixed Assets = $0.75 \times 45,00,000 = 33,75,000$.
 = Net Current Assets = Proprietors Funds - Fixed Assets
 = $45,00,000 - 33,75,000 = 11,25,000$
 Net Working Capital = Net Current Assets.

Q.3. Average collection period is 2 months, Cash sales and average receivables are ₹5,00,000 and ₹6,50,000 respectively. Find Total Sales.

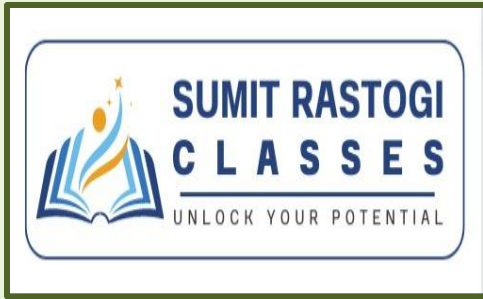
Ans. ₹44,00,000

WN: Avg. Collection Period = $\text{Avg. Receivables} \times 12 / \text{Net credit sales}$
 $2 = 6,50,000 \times 12 / \text{Net credit sales}$
 Net credit sales = $(6,50,000 \times 12) / 2 = 39,00,000$
 Total Sales = Cash + Credit = $5,00,000 + 39,00,000 = 44,00,000$

Q. 4. Determine which company is more profitable

	A. Ltd.	B. Ltd.
Net Profit ratio	5%	8 %
Turnover ratio	6 Times	3 times

**Ans. Company A is more profitable as it has higher return on capital ($5 \times 6 = 30\%$).
 Company B has lower return on capital ($8 \times 3 = 24\%$).**



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Q.5. If current ratio is 2.4: 1 and working capital is 25,20,000, find the amount of current assets and current liabilities.

Ans. CL - ₹18,00,000, CA - ₹43,20,000

Working Note:

Let, Current liability be 'X' and Current Assets be 2.4X
Then, Working capital = 2.4X - X = ₹25,20,000
X (Current liabilities) = ₹ 25,20,000 / 1.4 = ₹18,00,000
Current Assets = 18,00,000 x 2.4 = 43,20,000.

Q. 6. A firm has a capital of ₹ 10 lakhs, sales of ₹5 lakhs, gross profit of ₹2 lakhs and expenses of ₹1 lakh. The Net Profit Ratio is:

- (A) 50%
- (B) 40%
- (C) 20%
- (D) 10%

Ans. (C) 20%

Working Note:

Net Profit = 2,00,000 - 1,00,000 = 1,00,000
Net Profit ratio = 1,00,000 x 100 / 5,00,000 = 20%

Q. 7. In Net Profit Ratio, the denominator is:

- (A) Credit Sales
- (B) Net Sales
- (C) Cost of Sales
- (D) Cost of Goods Sold.

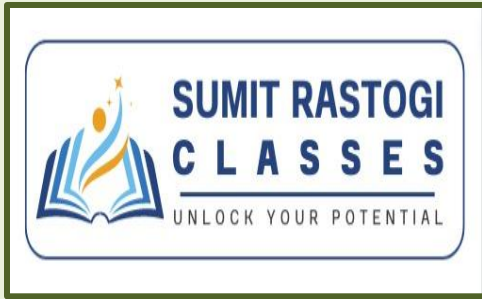
Ans. (B) Net Sales

Q.8. If current ratio is 2.4: 1, and net working capital is 42,000, find out the value of current assets and current liabilities.

Ans. ₹72,000

Working Note:

Current Assets - Current Liabilities - Working Capital
 $2.4x - x = ₹42,000$
 $1.4x = ₹42,000$
 $x = ₹30,000$
So. Current Liabilities = ₹30,000 and
Current Assets = ₹30,000 x 2.4 = ₹72,000



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Q.9. ROI (Return on Investment) can be decomposed into the following :

- (A) Overall Turnover Ratio and Current Ratio
- (B) Net Profit Ratio and Fixed Assets Turnover
- (C) Working Capital Turnover Ratio and Net Profit Ratio
- (D) Net Profit Ratio and Overall Turnover Ratio

Ans. (D) Net Profit Ratio and Overall Turnover Ratio

Q. 10. 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

Ans. (D) Avail Bank Overdraft to buy Machine

Q.11. 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.

Ans. (D) Lower Debt-Equity Ratio means lower Financial Risk

Q.12. The excess of Current Assets over Current Liabilities is called:

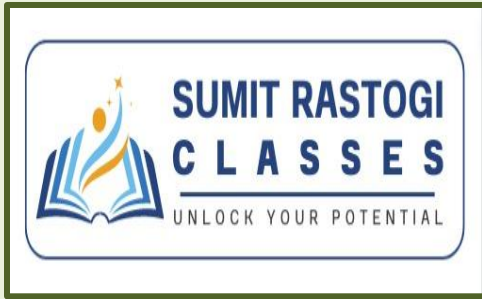
- (A) Net Current Assets
- (B) Net Working Capital
- (C) Working Capital
- (D) All of the above.

Ans. (D) All of the above

Q. 13. Which of the following is a Profitability Ratio?

- (A) Proprietary Ratio
- (B) Debt-Equity Ratio
- (C) Price Earnings Ratio
- (D) Fixed

Ans. (C) Price-Earnings Ratio



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Q.14. 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.

Ans. (A) Solvency

Q. 15. 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.

Ans. (C) Both Normative and Predictive purposes

Q. 16. The total Asset - turnover ratio and total Asset to net-worth of GIN Ltd. are 1.80 and 2.50 respectively. If the net-profit margin of the company is 8%. What will be its Return on Equity (ROE)?

Ans. 36%

Working Note:

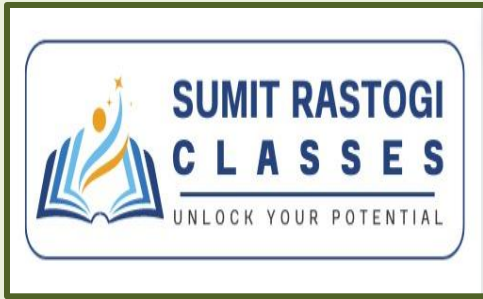
$$\text{ROE} = \text{Total Asset Turnover} \times \text{Total Assets to Net Worth} \times \text{Net Profit Margin}$$
$$= 1.80 \times 2.50 \times 8\% = 36\%$$

Q.17. From the given information, calculate Altman's Z score:

Current Assets	₹10,00,000
Current Liabilities	₹2,00,000
Ebit	₹1, 00,000
Sales	₹4,00,000
Retained Earnings	₹2,00,000
Total Assets	₹20,00,000
Total Debts	₹5,00,000
Market Value of Equity	₹25,00,000

- (A) 4.125
- (B) 3.985
- (C) 3.725
- (D) 3.125

Ans. (B) 3.985



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Working Note:

$$X1 = (10,00,000 - 2,00,000)/20,00,000 = 0.40$$

$$X2 = 2,00,000/20,00,000 = 0.10$$

$$X3 = 1,00,000/20,00,000 = 0.05$$

$$X4 = 25,00,000/5,00,000 = 5$$

$$X5 = 4,00,000/20,00,000 = 0.20$$

$$Z = 1.2 \times 0.40 + 1.4 \times 0.10 + 3.3 \times 0.05 + 0.6 \times 5 + 1 \times 0.20 = 3.985$$

Q. 18. Assume that the company's existing Acid-Test Ratio is 2:1. On Purchase of treasury bills of 1,00,000, Acid-Test Ratio will be.....

Ans. 2:1

Q.19. 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%

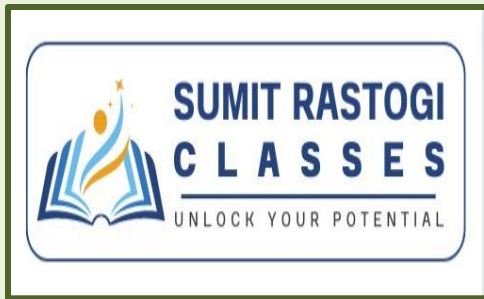
Ans. (C) 55%

Working Notes:

- (1) Equity Shareholders Fund = 30% x 10,00,000 = ₹3,00,000
 Debt Funds = 60% x 10,00,000 = ₹ 6,00,000
 Preference Share Capital = 10% x 10,00,000 = ₹ 1,00,000
- (2) ROI = EBIT x 100/Capital Employed
 30 = EBIT x 100/10,00,000
 EBIT = ₹3,00,000

(3) Statement of Earnings Available to Equity Shareholders

Particular	Amount (₹)
Earnings Before Interest and Tax (EBIT)	3,00,000
- Interest (6,00,000 x 10%)	60,000
Earnings before tax	2,40,000
- Tax (25% x 2,40,000)	60,000
Earnings after tax	1,80,000
- Preference Dividend (1,00,000 x 15%)	15,000
Earnings available to Equity shareholders	1,65,000



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Q.20. The balances of the Plant and M/c of A Ltd., on 31-3-2014 and 31.03.2013 were respectively ₹1,00,000 and ₹40,000. A machine with opening WDV ₹6000 was sold for ₹5000 during the year 2013-14. Depreciation of ₹5,000 was charged during the year. Find the amount that will feature as 'Application of Funds' in the Fund Flow Statement.

Ans. 71,000

Plant & Machinery Account

Particulars	Amount	Particulars	Amount
To Balance b/d	40,000	By Bank A/c	5,000
To Bank (Purchases) (B/F)	71,000	By Profit & Loss A/c	1,000
		By Depreciation A/c	5,000
		By Balance c/d	1,00,000
	1,11,000		1,11,000

Q. 21. Will the following items feature in the cash flow statements as per AS-3? If so, state the category under which the item will be shown:

- (i) Cash paid to develop self-constructed fixed asset.
- (ii) Acquisition of another entity by issue of shares.
- (iii) Conversion of debt to equity.

Ans.

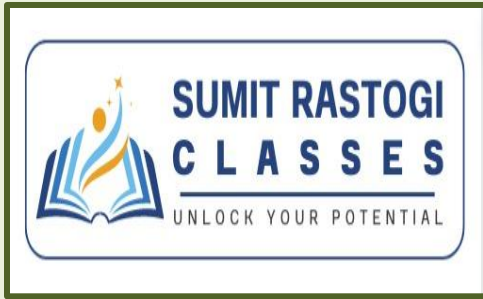
- (i) Cash paid to develop self-constructed asset - Included as 'cash from investing activity' under AS-3.
- (ii) Acquisition of another entity by issue of shares - Non cash transaction. Hence, does not feature in the Cash flow statement as per AS-3.
- (iii) Conversion of debt to equity - Non cash transaction. Hence, does not feature in the Cash flow statement as per AS-3.

Q. 22. A chemical company has a Net Sale of ₹50 crores, cash expenses (including taxes) of ₹35 crores, and depreciation of ₹5 crores. If debtors decrease over the period by 6 crores, what will be the cash from operations?

Ans. ₹21 crores

Working Notes:

Cash from Operation = Operating Profit + Non-Cash Charges + Decrease in Debtors
 = ₹ [(50-35-5) + 5 + 6] crores = **₹21 crores.**



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Q. 23. Classify the following items under the appropriate heading as per AS-3 in the cash flow statement:

- (a) Repayment of long term borrowings
- (b) Dividend paid
- (c) Dividend received
- (d) Income-tax paid on trading profits.

Ans.

- (a) Repayment of long term borrowings - Financing Activities
- (b) Dividend paid - Financing Activities
- (c) Dividend received - Investing Activities
- (d) Income-tax paid on trading profits - Operating Activities

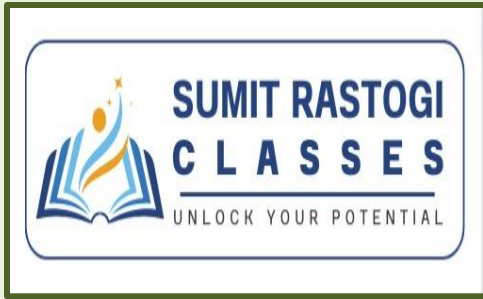
Q. 24. According to AS-3 (Revised), interest received on investment is an element of cash flow from.....activities.

Ans. Investing

Q. 25. 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

Ans. (C) Cash Flows from Investing Activity.



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Q.26. PJ Ltd. purchased a Machine on 01-10-2021 for ₹20,80,000 payable Shares of 500 each at a premium of 20 per share and the remaining by to 25% by a cheque and 50% of the balance by an issue of 14% Preference an issue of 12% Debentures of ₹500 each at a premium of 4%. Unpaid interest on these debentures and Unpaid Preference Dividend on 31st March 2022 amounted to ₹5,000 and ₹2,500 respectively. Calculate Cash flow from Financing Activities for Cash Flow Statement as per AS-3.

- (A) (1,87,800)
- (B) (1,80,000)
- (C) (93,900)
- (D) (90,000)

Ans. (D) (90,000)

Working Note:

Issue of Preference Capital (Including Premium) = $20,80,000 \times 75\% \times 50\% = ₹ 7,80,000$

Face value of Preference Share capital = $7,80,000 \times 500/520 = ₹7,50,000$

Debentures = $20,80,000 \times 75\% \times 50\% = ₹7,80,000$

Face Value of Debentures = $7,80,000 \times 500/520 = ₹7,50,000$

Interest payable = $7,50,000 \times 12\% \times 6/12 = ₹45,000$

Unpaid Interest = ₹ 5,000

Interest Paid = ₹40,000

Dividend payable = $7,50,000 \times 14\% \times 6/12 = ₹52,500$

Unpaid Dividend = ₹2,500

Dividend Paid = ₹50,000

Total Cash flow from Financing Activity = $(40,000) + (50,000) = ₹(90,000)$

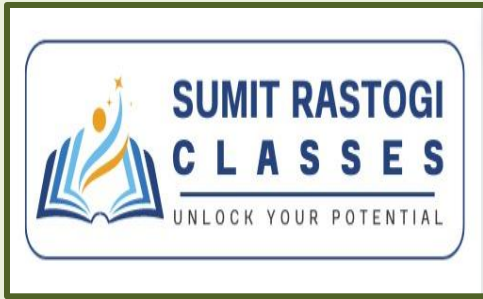
Q.27. Interest from Fixed Deposits in Banks is shown as:

- (A) Cash Flows from Operating Activities
- (B) Cash Flows from Investing Activities
- (C) Cash Flows from Financing Activities
- (D) None of the above

Ans. (B) Cash Flows from Investing Activities

Q.28 Cash Flow Statement (based on Ind AS-7) for listed companies should be presented as per the _____ Method.

Ans. Indirect



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CHAPTER-4 SOURCES OF FINANCE AND COST OF CAPITAL

Q.1 E is an exporter who relinquishes his right to a receivable due at a future date in exchange for immediate cash payment at an agreed discount, passing on all the risks and Responsibilities for collecting the debt to B. This arrangement is called_____.

Ans. Forfeiting.

Q.2. A process through which loans and other receivables are underwritten and sold in a form of asset is known as:

- (A) Factoring
- (B) Forfeiting
- (C) Securitisation
- (D) Bill Discounting.

Ans. (C) Securitisation.

Q.3. 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.

Ans. (D) Increase in Working Capital.

Q.4. Debt Financing is a cheaper source of finance because of:

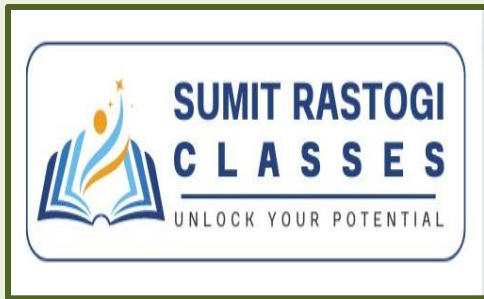
- (A) Time Value of Money.
- (B) Rate of Interest.
- (C) Tax-deductibility of Interest.
- (D) Dividend not payable to lenders.

Ans. (C) Tax-deductibility of Interest.

Q.5. 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.

Ans. (C) Equity Shares.



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Q.6. 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.

Ans. (B) Factoring is the purchase of the invoice of the client.

Q.7. _____ is a collaborative funding model that collects small contributions from many individuals.

Ans. Crowd Funding.

Q.8. Perpetual 15% debentures of 1,000 are sold at a premium of 10% with no floatation costs. Taking corporate tax rate at 35%, the after-tax of capital will be:

- (A) 6.88%
- (B) 7.88%
- (C) 8.86%
- (D) 10.73%.

Ans. (C) 8.86%

Working Note:

$$\text{Cost After tax cost of capital (Kd)} = [\text{Interest payment/Sale price of Debenture}] \times [1-t]$$
$$= [150 \times (1 - 0.35)/(1,000 + 100)] \times 100 = 8.86\%$$

Q.9. G Ltd. issues 20,000,12% debentures of 100 each at premium of 10per cent. The debentures are redeemable after the expiry of a fixed period of 10 years at 20 per cent premium. Calculate the cost of debt after 30% tax.

Ans. 8.1739%.

Working Note:

$$Kd = [12(1 - 0.30) + (120 - 110)/10]/[(120 + 110)/2] = (8.4 + 1)/115 = 8.1739\%$$

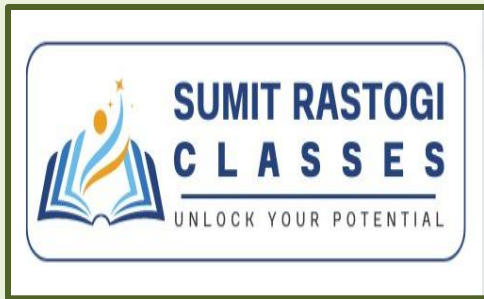
Q.10. A Co. pays a dividend of 20% on the equity shares of face value of ₹ 100 each. Find out the value of the equity share given that the dividend rate is expected to remain same and the required rate of return is 15%.

Ans. $P_0 = D / K_e = 20 / 0.15 = ₹ 133.33$.

Q.11. The current market price and expected year-end dividend of an equity share are ₹ 90 and ₹ 4.50 respectively. The dividend growth rate is expected at 7% annually. Compute the cost of capital under the dividend growth model.

Ans. 12%.

Working Note: Cost of equity = $K_e = [(D_1/P_0) + g] = [(4.5/90) + 0.07 = 0.12 = 12\%$.



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Q.12. P Ltd. issues 10,00,000, 12% debentures of 100 each at a premium of 20 per cent. The debentures are redeemable after the expiry of a fixed period of 10 years at 40 per cent premium. Calculate the cost of debt after tax if corporate tax rate is 30%.

Ans. 8%

Working Note:

$$K_d = [12(1 - 0.30) + (140 - 120)/10] / [(140 + 120)/2] = (8.4 + 2) / 130 = 0.08 \text{ or } 8\%$$

Q.13. 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.

Ans. (D) Minimum Rate of Return that the firm should earn.

Q.14. Cost of Capital refers to:

- (A) Floatation Cost
- (B) Dividend
- (C) Required Rate of Return
- (D) None of the above.

Ans. (C) Required Rate of Return.

Q.15. ABY Ltd. has paid dividend of ₹ 3 per share of ₹ 10 each last year and it is expected to grow @ 10% next year. If the market price of share is ₹ 60 what will be the Cost of equity?

- (A) 12.00%
- (B) 12.50%
- (C) 16.50%
- (D) 15.50%

Ans. (D) 15.50%

Working Note:

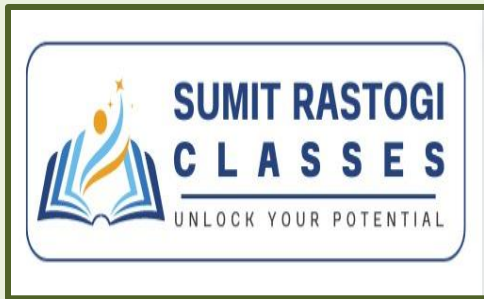
$$K_e = D_1 / P_0 + g = 3.30 / 60 + 0.10 = 0.155 = 15.50\%$$

Q.16. The current market price of an equity share of a company is 80. The current dividend per share is ₹4. In case the dividend are expected grow at the rate of 7%, the cost of equity capital will be _____.

Ans. 12.35%

Working Note:

$$K_e = D_1 / P_0 + g = 4.28 / 80 + 0.07 = 0.1235 = 12.35\%$$



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Q.17. If Annual Growth Rate is 50% of the Cost of Equity and the Dividend Yield is 9(1/11) %, then the Cost of Equity would be:

- (A) 18%
- (B) 20%
- (C) 22%
- (D) 25%

Ans. (A) 18%

Working Notes:

$K_e = \text{Dividend Yield} + \text{Growth rate}$

$K_e = 100/11 + 0.50 K_e$

$0.5 K_e = 100/11$

$K_e = 18.18\%$ or **18%**.

Q.18. 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%
- (e) 10%
- (D) 11%

Ans. (C) 10%

Working Note:

$WACC = 0.40 K_e + 0.40 \times 15 + 0.20 \times 7.20$

$15.44 = 0.40 K_e + 6 + 1.44.$

$K_e = 20\%$

$K_e = D_1/P_0 + g$

$D_1 = 4 (1 + g)$

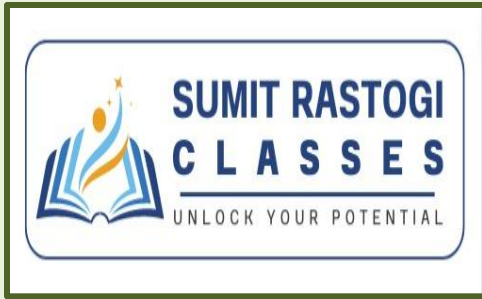
$0.20 = 4(1 + g)/44$

$0.20 \times 0.09091 (1 + g) + g$

$0.20 = 0.09091 + 0.09091g + g$

$0.10909 = 1.09091g$

$g = 0.10 = \mathbf{10\%}$



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Q.19. 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%

Ans. (D) 12%

Working Note:

$$WACC = 0.40K_e + 0.40 \times 18 + 0.20 \times 9$$

$$19 = 0.40K_e + 7.2 + 1.8$$

$$K_e = 25\%$$

$$K_e = D_1 / P_0 + g$$

$$D_1 = 13(1 + g)$$

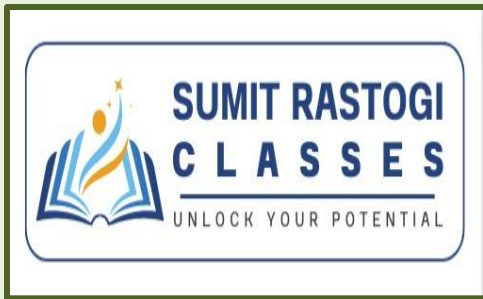
$$0.25 = 13(1 + g) / 112 + g$$

$$0.25 = 0.11607(1 + g) + g$$

$$0.25 = 0.11607 + 0.11607g + g$$

$$0.13393 = 1.11607g$$

$$g = 0.12 = 12\%$$



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CHAPTER- 5 CAPITAL BUDGETING

Q.1. Ascertain the discounted value at 10% p.a. at the end of year 1 of an investment of 2,00,000 to be made at the end of year 2 and 3,00,000 made immediately.

Ans. P.V. = 3,00,000 (1.1) + 2,00,000/1.1 = 3,30,000+1,81,818 = ₹ 5,11,818.

Q.2 What is the acceptance rule for a project under the internal rate of return parameter?

Ans. If IRR of the project 'r' is > K, the cost of capital, accept the project. If r < K, reject the project; If r = K, indifference point, i.e. accept or reject.

Q.3. If Discounted Pay Back period is 5 years and cost of capital is 12%, find IRR when the life of the project is also 5 years.

**Ans. When Discounted Pay Back period = Life of the project, NPV = 0.
When NPV = 0, Cost of Capital (k) = IRR = 12%.**

Q.4. The discount rate used for determining NPV of a project under capital budgeting is at least the

Ans. Cost of Capital.

Q.5. ₹25,000 is being invested at the beginning of every year. We are now at the end of year II. Considering a 10% interest rate, what is today's value of the annual investments from year I till and including that of year V?

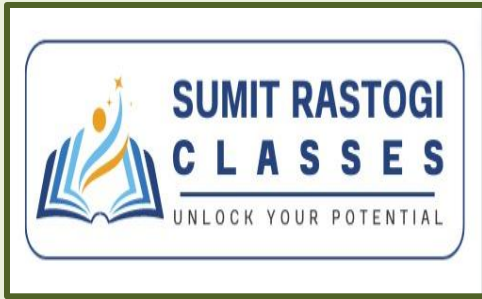
(Take 10% discount factors as: 1, 0.909, 0.826, 0.751, 0.683, 0.621, 0.564 for year-end 0, 1, 2, 3, 4, 5, 6).

Ans. For equal past and future cash flow PV do not matter. Hence, PV of Investment = 25,000 × 5 = ₹1,25,000

Q.6. The following is not a Discounted Cash Flow Technique:

- (A) NPV
- (B) PI
- (C) Accounting of Average Rate of Return
- (D) IRR.

Ans. (C) Accounting of Average Rate of Return



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Q.7. 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.

Ans. (D) Rate of Cash Discount.

Q.8. 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.

Ans. (B) Discount Rate.

Q.9. Capital Budgeting techniques which considers the time value of money is based on:

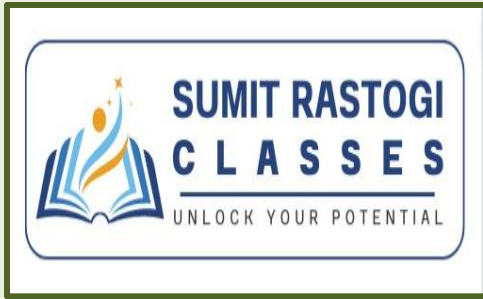
- (A) Cash Flows of the organization
- (B) Accounting Profit of the organization
- (C) Interest Rate on Borrowings
- (D) Last Dividend Paid

Ans. (A) Cash Flows of the organization

Q.10. 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

Ans. (D) Equates the present value of Net Cash Inflow to the Net Cash Outflow.



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Q.11. A project of ₹20,00,000 yielded annually profit of ₹3,00,000 after depreciation at 12.5% for 5 years and is subject to income tax at 50%. What will be the Pay Back Period?

Ans.

Profit Before Tax	3,00,000
Tax at 50%	(1,50,000)
Profit After Tax	1,50,000
Depreciation	2,50,000
Annual Cashflow	4,00,000

Payback Period = Initial Outflow/Annual Cash inflow = 20,00,000/ 4,00,000= 5 Years.

Note: This method of calculation of Payback period is only possible when Annual Cashflow is same throughout the project life.

Q.12. Annual Cost Saving ₹ 80,000, Applicable Present Value of Annualised 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

Ans. (D) None of the above

Working Note:

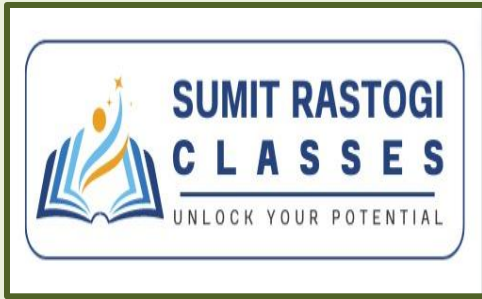
PI = Discounted Cash inflow/Initial Investment

1.064 = 80,000 × 2.855/Initial Investment

Initial Investment = 2,28,400/1.064

Initial Investment = 2,14,662

NPV = 2, 28,400-2,14,662 = ₹ 13, 378.



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CHAPTER – 6 WORKING CAPITAL MANAGEMENT

Q. 1. Working Capital Management involves financing and management of:

- (A) All Assets
- (B) All Current Assets
- (C) Cash and Bank Balance
- (D) Receivables and Payables.

Ans. (B) All Current Assets

Q. 2. The excess of Current Assets over Current Liabilities is called:

- (A) Net Current Assets
- (B) Net Working Capital
- (C) Working Capital
- (D) All of the above.

Ans. (D) All of the above

Q. 3. 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

Ans. (D) All of the above

Q. 4. ABC Analysis is used in:

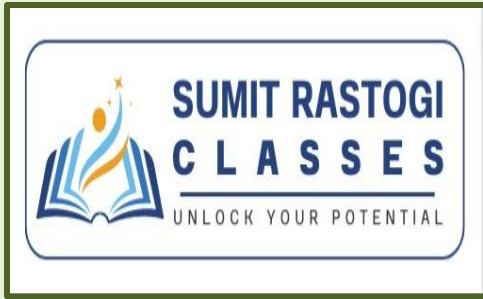
- (A) Inventory Management
- (B) Receivables Management
- (C) Accounting Policies
- (D) Corporate Governance

Ans, (A) Inventory Management

Q. 5. The term Float is used in:

- (A) Receivable Management
- (B) Cash Management
- (C) Marketable Management
- (D) Inventory Management

Ans. (B) Cash Management



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Q.6. Which of the following would be consistent with a more aggressive approach to financing working capital?

- (A) Financing permanent inventory build up 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.

Ans. (C) Financing some long-term needs with short-term funds

Q.7. 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 $\sqrt{(2AO/C)}$

- (A) $\sqrt{(AOC)}$
- (B) $2\sqrt{(AOC)}$
- (C) $\sqrt{(AOC/2)}$
- (D) $\sqrt{(2AOC)}$

Ans. (C) $\sqrt{(AOC/2)}$

Working Notes:

$$\begin{aligned} \text{Ordering Cost} &= A \times O / \text{Order Size} = AO / \sqrt{(2AO/C)} \\ &= AO \times \sqrt{(2AO/C)} / (2AO/C) \\ &= CX \sqrt{(2AO/C)} / 2 \\ &= \sqrt{(AOC/2)} \end{aligned}$$

Q.8. 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 9. 16. Total Sales 125 lakhs, Credit Sales being four times the cash sales. 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

Ans. (A) ₹1,08,000

Working Note:

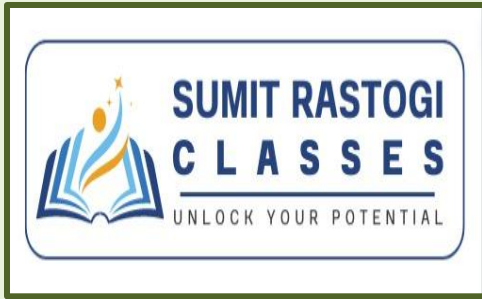
(1) Credit sales = $125 \times 4/5 = ₹100$ Lakhs

Units = $1,00,00,000 / 500 = 20,000$ units

(2) Average Credit Period = $0.25 \times 24 + 0.75 \times 40 = 36$ Days

Investment in receivables = $20,000 \times 450 \times 36/360 = ₹9,00,000$.

(3) Opportunity cost of Investment in receivables = $9,00,000 \times 16\% \times (1-0.25) = ₹1,08,000$.



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Q.9. Quarterly demand of Product ZED - 16,250 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% p.a., 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

Ans. (C) 7.5 days

Working Note:

Quantity of Raw Material Required = $16,250 \times 4 / 2.5 = 26,000$ units

Quantity of Raw Material to be purchased = $26,000 + 14,000 \times 120\% - 14,000 = 28,800$ units

Ordering Cost = ₹75 per order

Carrying Cost = $12\% \times 50 + 0.50 \times 12 = ₹12$

EOQ = $[2 \times 28,800 \times 75 / 12]^{1/2} = 600$ units.

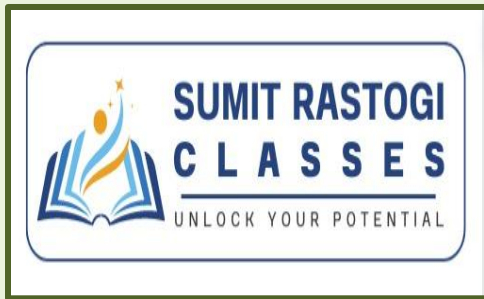
Frequency of orders = $600 \times 360 / 28,800 = 7.5$ days

Q.10. _____ schedule classifies the receivables according to their age (the period for which they have been outstanding).

Ans. Ageing.

Q.11. All permanent current assets are financed out of long-term sources of finance under _____ Approach of Working Capital Management.

Ans. Aggressive.



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CHAPTER-7 FINANCING DECISIONS OF A FIRM

Q. 1. Cost of debt is 9% after tax. Cost of equity is 12% at zero leverage and it keeps increasing as leverage grows. Find the weighted average cost of capital at 60% debt proportion under the Net Operating Income Approach.

Ans. According to NOI approach, the WACC does not get affected by the financing mix. The Cost of equity at zero leverage will be the WACC = 12% always, however, much the leverage changes.

Q. 2. M. Ltd. does not use any debt in its capital structure. The company has earnings before interest and tax of ₹ 2,00,000 per annum and the capitalization rate is 12%. Assume corporate tax of 30%. Calculate the value of the firm according to MM Hypothesis.

Ans. $V_u = \text{EBIT} (1-t) / K_o = 2,00,000 (0.7) / 0.12 = ₹11,66,667$

Q.3. According to Net Income approach, greater the proportion of debt capital _____ shall be the overall cost of capital.

Ans. Lower

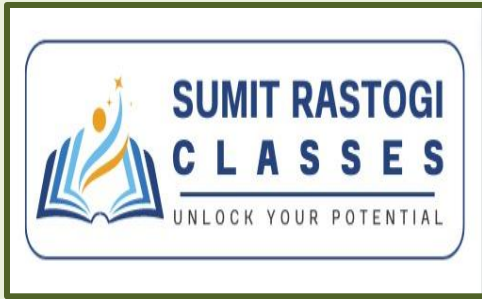
Q. 4. UBI Ltd has EBIT of ₹ 1,00,000. The Company makes use of Debt and Equity Capital. The Company has 10% debentures of ₹ 4,00,000. If the Company's equity capitalization rate is 15% What will be value of UBI Ltd?

- (A) ₹ 4,00,000
- (B) ₹ 7,00,000
- (C) ₹ 8,00,000
- (D) ₹ 6,00,000.

Ans. (C) 8,00,000

Working Note:

EBIT	1,00,000
Interest	(40,000)
EBT	60,000
Capitalisation rate	15%
Value of Equity =	$60,000 / 15\% = 4,00,000$
Value of Debt =	4,00,000
Value of Company =	$4,00,000 + 4,00,000 = ₹ 8,00,000.$



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Q. 5. 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.

Ans. (D) Cost of Equity remains the same.

Q.6. X Ltd. 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 X Ltd. = ₹ 9,00,000 and Value of Y Ltd. = 10,00,000
- (B) k of Y Ltd. 25%
- (C) k, of Y Ltd. = 18% and k, of X Ltd.
- (D) None of the above

Ans. (B) k of Y Ltd. 25%

Working Note:

- (1) Value of X Ltd. = $2,40,000 (1-0.25) / 20\% = ₹ 9,00,000$
- Value of Y Ltd. = $9,00,000 + 4,00,000 \times 25\% = ₹ 10,00,000$
- K of Y Ltd. = $2,40,000 (1-0.25) / 10,00,000 = 18\%$
- K of X Ltd. = 20%

Q. 7. Which among the following is not an assumption of the Net Income Approach?

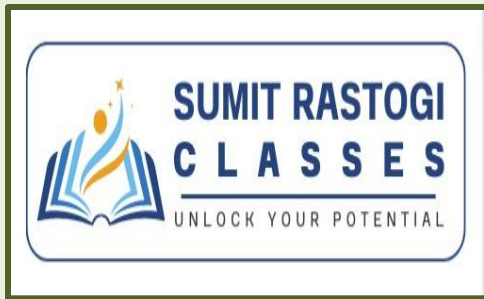
- (A) No Corporate Taxes
- (B) No Change in Risk Perception
- (C) Debt Capitalisation Rate is equal to Equity Capitalisation Rate
- (D) Value of the firm does not remain the same

Ans. (C) Debt Capitalisation Rate is equal to Equity Capitalisation Rate

Q.8. Given that Sales = ₹50,000, Variable Cost = 60%, Fixed Cost = ₹12,000 the operating leverage will be:

- (A) 2.2
- (B) 2.0
- (C) 5.2
- (D) 2.5

Ans. (D) 2.5



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Working Notes: Contribution = Sales - Variable cost = 50,000 - 30,000 = 20,000
 So, Operating profit = ₹8,000.
 Hence, Operating leverage = Contribution/operating profit = 20,000/ 8,000 = 2.50

Q. 9. Toli Ltd. earned a contribution of ₹ 50 per unit on 65,000 units sold. Company's debt is ₹ 30,00,000 at 12% rate of interest and Fixed Costs are ₹7,50,000. Calculate the Financial Leverage.

Ans. 1.1682

Working Notes:

Contribution (65,000 x 50)	32,50,000
Less: Fixed Cost	(7,50,000)
EBIT	25,00,000
Less: Interest (30,00,000 x 12%).	(3,60,000)
EBT	21,40,000

Financial Leverage = EBIT/EBT = 25,00,000/ 21,40,000 = **1.1682**

Q. 10. A firm earns a contribution of ₹ 4,80,000. Its operating leverage and financial leverage are respectively 4 and 5. Find the firm's PAT if the effective tax rate is 25%.

Ans. ₹18,000

Working Notes:

Combined Leverage = Operating Leverage x Financial Leverage = 4x5 = 20

Combined leverage = Contribution/ EBT

EBT = Contribution/Combined Leverage = ₹4,80,000/20 = ₹24,000

PAT = EBT × (1 - Tax rate) = 24,000 x (1 - 0.25) = **₹18,000.**

Q. 11. The following particulars are furnished to you relating to a company:

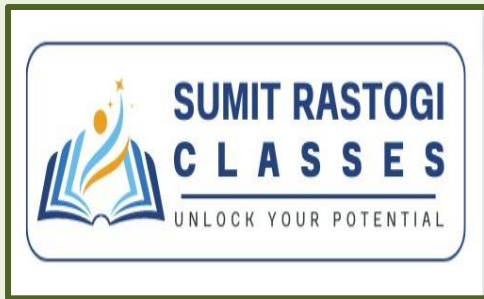
	(₹in lakhs)
Sales	1,000
Variable cost	400
Fixed cost	300
Contribution	300
Interest	100
Profit before tax	200

You are required to calculate Operating leverage and Financial Leverage from the above.

Ans. 2, 1.5

Working Notes:

Operating Leverage	= Contribution /EBIT	= 600/300 = 2
Finance Leverage	= EBIT/ EBT	= 300/200 = 1.5



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Q. 12. The ratio of % change in one variable to the % change in some other variable is defined as _____ in the context of capital structure and finance.

Ans. Leverage.

Q. 13. You find that a firm has margin of safety = 25% of sales. Find the Degree of Operating Leverage.

Ans. 4

Working Notes:

Margin of Safety = 25% of sales implies that 100% reduction in profits (EBIT) for 25% reduction in sales;

DOL = % Change in EBIT/% Change in Sales; Thus DOL = 100/25 = 4.

Q. 14. 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.

Ans. (B) 3

Working Notes:

Contribution = Sales - Variable Cost = 10,00,000 - 7,00,000 = ₹ 3,00,000

Operating Leverage = Contribution/ EBIT = 3,00,000/ 1,00,000 = 3.

Q.15. At Indifference level of EBIT, different capitals have:

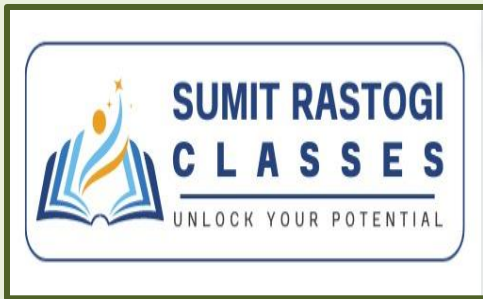
- (A) same EBIT
- (B) same EPS
- (C) same PAT
- (D) same PBT.

Ans. (B) same EPS

Q. 16. 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.

Ans. (D) 30% increase



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Working Notes:

$$DCL = 2 \times 1.5 = 3$$

$$\text{Percentage increase in EPS} = 3 \times 10 = 30\%$$

Q. 17. EBIT-EPS chart is used for which of the following purpose?

- (A) Determining the Price-Earnings ratio
- (B) Showing changes of EPS overtime
- (C) Getting EPS levels for varying levels of EBIT
- (D) Impact of sales on EBIT.

Ans. (C) Getting EPS levels for varying levels of EBIT

Q.18. If the Fixed Cost is 50% of EBIT, then Operating Leverage would be:

- (A) 2
- (B) 1.5
- (C) 3
- (D) 3.5

Ans. (B) 1.5

Working Notes:

$$\text{Operating Leverage} = \text{Contribution/EBIT} = (\text{Fixed Cost} + \text{EBIT}) / \text{EBIT}$$

$$(0.5 \text{ EBIT} + \text{EBIT}) / \text{EBIT}$$

$$1.5 \text{ EBIT} / \text{EBIT} = 1.5$$

Q.19. The earnings of a company = ₹5,00,000. Dividend payout ratio is 60%. The number of shares outstanding = 1,50,000. Equity capitalization rate=11% and rate of return on investment = 16%. Calculate the market value of the share as per Walter's model.

Ans. ₹ 35.71

Working Notes:

At per Walter's model,

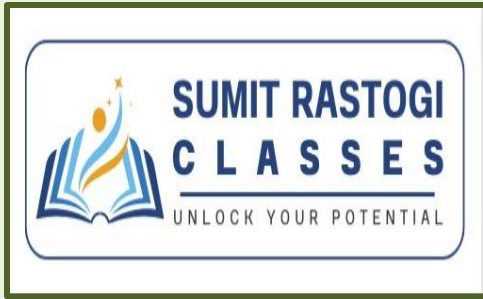
$$P = [D + (E - D)(r/ke)] / ke$$

$$= [2 + (3.33 - 2)(0.16/0.11)] / 0.11$$

$$= [2 + 1.33 \times 1.45] / 0.11 = 3.9285 / 0.11 = ₹ 35.71$$

Q.20. _____ ratio expresses the relationship between what is actually paid in the form of dividends out of available earnings and what is available as earnings per share.

Ans. Pay-out.



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Q. 21 A Co. pays a dividend of 20% on the equity shares of face value of ₹100 each. Find out the value of the equity share given that the dividend rate is expected to remain same and the required rate of return is 15%.

Ans. ₹133.33

Working Notes:

$$P_0 = D / K_e$$

Where P_0 = Value of equity share.

D = Annual Dividend

K_e = Required rate of return.

So, $K_e = 15\%$

$D = 20$ (i.e. 20% of 100)

$$P_0 = D / K_e = 20 / 0.15 = \text{₹}133.33$$

Q.22. Which one of the following activities is outside the purview of dividend decision in financial management?

- (A) Identification of the profit after taxes
- (B) Measurement of the cost of funds
- (C) Deciding on the pay-out ratio
- (D) Considering issue of bonus shares to equity shareholders.

Ans, (B) Measurement of the cost of funds

Q.23. The 'Dividend-Payout Ratio' is equal to:

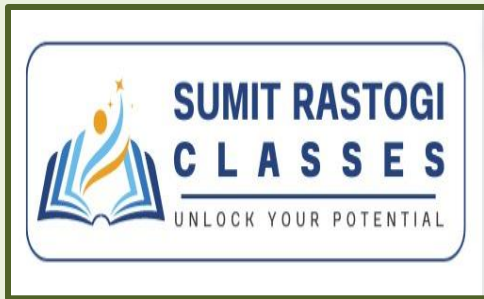
- (A) The Dividend yield plus the capital gains yield
- (B) Dividends per share divided by Earning per Equity Share
- (C) Dividends per share divided by par value per share
- (D) Dividends per share divided by current price per share.

Ans. (B) Dividends per share divided by Earning per Equity Share

Q. 24. What should be the optimum Dividend payout ratio, when $r = 12\%$ and $K_e = 10\%$?

- (A) Zero
- (B) 50%
- (C) 12%
- (D) 100%.

Ans. (A) Zero.



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Q. 25. Who said - "Investors prefer the early resolution of uncertainty and are willing to pay a higher price of the shares that offer the greater current Dividends"?

Ans. Myron J Gordon (1962).

Q. 26. Axis Ltd. follows Walter's view of dividend policy. Its earnings per share is ₹40 and face value of equity share is ₹ 100. It has a rate of return of 20% and capitalization rate is 8%. What should be the market price per share if payout ratio is zero?

Ans. ₹1,250

Working Notes:

$$P = [D + (E - D) (r/k_e)] / k_e$$

P = Market Price per Share,

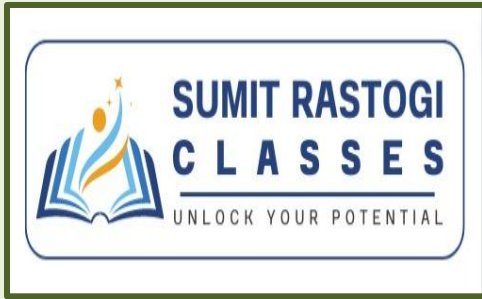
D = Dividend per Share (Re. 0)

E = Earnings per Share (₹40)

R = Internal Rate of Return (20%)

k_e = Cost of Capital (8%)

$$P = [0 + 0.20 (40 - 0) / 0.08] / 0.08 = \mathbf{₹1,250.}$$



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CMA-INTER

BUSINESS DATA ANALYTICS

PAST PAPERS - OBJECTIVE QUESTIONS

Q. 1. Data may be classified as Restricted, _____ or Public by an entity.

Ans. Private.

Q. 2. The Probability Density function describes:

- (A) The characteristics of a Random Constant.
- (B) The characteristics of a Non- Random Constant.
- (C) The characteristics of a Non- Random Variable.
- (D) The characteristics of a Random Variable.

Ans. (D) The characteristics of a Random Variable.

Q. 3. A scatter plot displays several unique data points:

- (A) On four different graphs
- (B) On three different graphs
- (C) On a single graph
- (D) On two different graphs

Ans. (C) On a single graph

Q. 4. Numerical data may be expressed as:

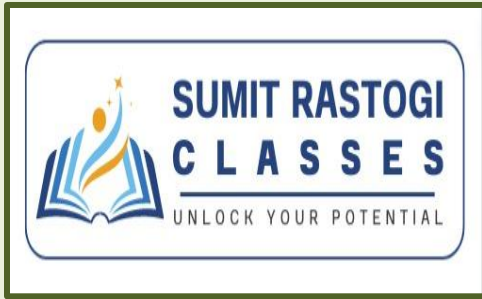
- (A) Text
- (B) Quantities
- (C) Images
- (D) All of the above

Ans. (D) All of the above

Q. 5. Which of the following is a widely used graph for data visualisation?

- (A) Bar chart
- (B) Pie chart
- (C) Histogram
- (D) All of the above

Ans. (D) All of the above



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Q.6 Data _____ techniques are utilised to develop descriptions and Hypothesis on a specific data set.

Ans. Mining

Q. 7. XBRL is the abbreviation of:

- (A)** Extensible Business Reporting Language
- (B)** Extensive Business Reporting Language
- (C)** Extended Business Reporting Language
- (D)** Exclusive Business Reporting Language

Ans. (A) Extensible Business Reporting Language

Q. 8. Which of the following is a type of cloud computing?

- (A)** Private cloud
- (B)** Public cloud
- (C)** Hybrid cloud
- (D)** All of the above

Ans. (D) All of the above