

GAGE UNIVERSITY COLLEGE

Exit Exam for Financial management I and Financial management II

Academic year: 2015

Maximum weight: 200%

Maximum time allowed: - ----

Name: _____ ID: _____ campus : _____

Instruction I: Choose the best answer for the following questions (2 point each)

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. None of the above
5. Dividend Payout Ratio is
 - A. PAT Capital
 - B. $DPS \div EPS$
 - C. $\text{Pref. Dividend} \div PAT$
 - D. $\text{Pref.Dividend} \div \text{Equity Dividend.}$
6. DU PONT 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.
12. ABC Ltd. has a Current Ratio of 1.5: 1 and Net Current Assets of Rs. 5,00,000. What are the Current Assets?
- A. Br. 5,00,000
 - B. Br. 10,00,000,
 - C. Br. 15,00,000
 - D. Br.25,00,000
13. There is deterioration in the management of working capital of XYZ Ltd. What does it refer to?
- A. That the Capital Employed has reduced
 - B. That the Profitability has gone up
 - C. That debtors collection period has increased
 - D. That Sales has decreased.

14. 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.

15. Debt to Total Assets Ratio can be improved by:

- A. Borrowing More
- B. Issue of Debentures
- C. Issue of Equity Shares
- D. Redemption of Debt.

16. Ratio of Net Income to Number of Equity Shares known as:

- A. Price Earnings Ratio
- B. Net Profit Ratio
- C. Earnings per Share
- D. Dividend per Share.

17. Trend Analysis helps comparing performance of a firm

- A. With other firms
- B. Over a period of firm
- C. With other industries
- D. None of the above.

18. A Current Ratio of Less than One means:

- A. Current Liabilities < Current Assets
- B. Fixed Assets > Current Assets
- C. Current Assets < Current Liabilities
- D. Share Capital > Current Assets.

19. A firm has Capital of Rs. 1000,000; Sales of Br. 500,000; Gross Profit of Br 200,000 and Expenses of Br. 1,00,000. What is the Net Profit Ratio?

- a. 20%
- b. 50%
- c. 10%
- d. 40%

20. XYZ Ltd. has earned 8% Return on Total Assets of Br.5000,000 and has a Net Profit Ratio of 5%. Find out the Sales of the firm.

- A. Br. 4,00,000
- B. Br. 2,50,000
- C. Br. 80,00,000
- D. Br. 83,33,333.

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 ratio 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.

31. Which of the following is not a capital budgeting decision?

- (a) Expansion Program
- (b) Merger
- (c) Replacement of an Asset
- (d) Inventory Level

32. A sound Capital Budgeting technique is based on:

- (a) Cash Flows
- (b) Accounting Profit
- (c) Interest Rate on Borrowings
- (d) Last Dividend Paid

33. 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.

34. Capital Budgeting Decisions are based on:

- (a) Incremental Profit
- (b) Incremental Cash Flows
- (c) Incremental Assets
- (d) Incremental Capital

35. 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

36. 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)

37. 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.

38. 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

39. 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

40. 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

41. 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.

42. In capital budgeting, the term Capital Rationing implies:

- (a) That no retained earnings available
- (b) That limited funds are available for investment
- (c) That no external funds can be raised,
- (d) That no fresh investment is required in current year

43. Feasibility Set Approach to Capital Rationing can be applied in:

- (a) Accept-Reject Situations
- (b) Divisible Projects
- (c) Mutually Exclusive Projects
- (d) None of the above

44. In case of divisible projects, which of the following can be used to attain maximum NPV?

- (a) Feasibility Set Approach
- (b) Internal Rate of Return
- (c) Profitability Index Approach
- (d) Any of the above

50. In case of the indivisible projects, which of the following may not give the optimum result?

- (a) Internal Rate of Return
- (b) Profitability Index
- (c) Feasibility Set Approach
- (d) All of the above

51. Profitability Index, when applied to Divisible Projects, impliedly assumes that:

- (a) Project cannot be taken in parts
- (b) NPV is linearly proportionate to part of the project taken up
- (c) NPV is additive in nature
- (d) Both (b) and (c)

52. If there is no inflation during a period, then the Money Cashflow would be equal to:

- (a) Present Value
- (b) Real Cash flow
- (c) Real Cash flow + Present Value
- (d) Real Cash flow - Present Value

53. The Real Cash flows must be discounted to get the present value at a rate equal to:

- (a) Money Discount Rate
- (b) Inflation Rate
- (c) Real Discount Rate
- (d) Risk free rate of interest

54. Real rate of return is equal to:

(a) Nominal Rate $\times$ Inflation Rate (b) Nominal Rate $\div$ Inflation Rate

(c) Nominal Rate - Inflation Rate (d) Nominal Rate + Inflation Rate

55. If the Real rate of return is 10% and Inflation's Money Discount Rate is:

(a) 14.4% (b) 2.5% (c) 25% (d) 14%

56. If the Money Discount Rate is 19% and Inflation Rate is 12%, then the Real Discount Rate is:

(a) 7% (b) 5% (c) 5.70% (d) 6.25%

57. Risk in Capital budgeting implies that the decision-maker knows__of the cash flows.

(a) Variability (b)Probability (c) Certainty (d) None of the above

58. In Certainty-equivalent approach, adjusted cash flows are discounted at:

(a) Accounting Rate of Return
(b) Internal Rate of Return
(c) Hurdle Rate (d) Risk-free Rate

59. Risk in Capital budgeting is same as:

(a) Uncertainty of Cash flows
(b) Probability of Cash flows
(c) Certainty of Cash flows
(d) Variability of Cash flows

60.. Which of the following is a risk factor in capital budgeting?

(a) Industry specific risk factors
(b) Competition risk factors
(c) Project specific risk factors
(d) All of the above

61. In Risk-Adjusted Discount Rate method, the normal rate of discount is:

(a) Increased
(b) Decreased

(c) Unchanged

(d) all

64. The job of a finance manager is confined to
- (a) Raising funds
 - (b) Management of cash
 - (c) Raising of funds and their effective utilization.
 - (d) None of these
65. Which element of the basic NPV equation is adjusted by the RADR?
- (a) Denominator
 - (b) Numerator
 - (c) Both
 - (d) None
69. Cost of Capital refers to:
- (a) Flotation Cost
 - (b) Dividend
 - (c) Required Rate of Return
 - (d) None of the above.
70. 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
71. Which of the following has the highest cost of capital?
- (a) Equity shares
 - (b) Loans
 - (c) Bonds
 - (d) Preference shares
72. 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
73. 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) None of the above.
74. Weighted Average Cost of Capital is generally denoted by:
- (a) k_A
 - (b) k_w
 - (c) k_0

75. 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. |
76. Which is the most expensive source of funds?
- | | |
|-----------------------|---------------------------|
| (a) New Equity Shares | (b) New Preference Shares |
| (c) New Debts | (d) Retained Earnings |
77. Marginal cost of capital is the cost of:
- | | |
|--------------------------|------------------------|
| (a) Additional Sales | (b) Additional Funds |
| (c) Additional Interests | (d) None of the above. |
78. In case the firm is all-equity financed, WACC would be equal to
- | | |
|-------------------------|----------------------|
| (a) Cost of Debt | (b) Cost of Equity |
| (c) Neither (a) nor (b) | (d) Both (a) and (b) |
79. In case of partially debt-financed firm, k_0 is less
- | | |
|----------------------|-----------------------|
| (a) K_d | (b) K_e |
| (c) Both (a) and (b) | (d) None of the above |
80. In order to calculate Weighted Average Cost of weights may be based on:
- | | |
|-------------------|----------------------|
| (a) Market Values | (b) Target Values |
| (c) Book Values | (d) All of the above |
81. Firm's Cost of Capital is the average cost of:
- | | |
|-------------------|------------------------------|
| (a) All sources | (b) All borrowings |
| (c) Share capital | (d) Share Bonds & Debentures |

82. 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

83. 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
84. 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
85. 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
86. 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) Weighted Average Cost of Capital
 - (c) Net Profit Ratio
 - (d) Average Cost of borrowing
87. Cost 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.
88. 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.
89. 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

90. 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.

91. 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.

92. 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) above.

93. Advantage of Debt financing is

- (a) Interest is tax-deductible
- (b) It reduces WACC
- (c) Does not dilute owners control
- (d) All of the above.

94. Cost of issuing new shares to the public is known as:

- (a) Cost of Equity
- (b) Cost of Capital
- (c) Flotation Cost
- (d) Marginal Cost of Capital.

95. Cost of Equity 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 three above.

96. 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 Pref. Dividend Plus Risk

(d) Price-Earnings Ratio

97. Operating leverage helps in analysis of:

(a) Business Risk

(b) Financing Risk

(c) Production Risk

(d) Credit Risk

98. 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

99. Combined Leverage is obtained from OL and FL by their:

(a) Addition

(b) Subtraction

(c) Multiplication

(d) Any of these

100. High degree of financial leverage means:

(a) High debt proportion

(b) Lower debt proportion

(c) Equal debt and equity

(d) No debt

101 . In MM-Model, irrelevance of capital structure is based on:

(a) Cost of Debt and Equity

(b) Arbitrage Process

(c) Decreasing k_0

(d) All of the above

102 . 'That there is no corporate tax' is assumed by:

(a) Net Income Approach

(b) Net Operating Income Approach,

(c) Traditional Approach

(d) All of these

103 . 'That personal leverage can replace corporate leverage' is assumed by:

(a) Traditional Approach

(b) MM Model

(c) Net Income Approach

(d) Net Operating Income Approach.

104. Which of the following argues that the value of levered firm is higher than that of the unlevered firm?

(a) Net Income Approach

(b) Net Operating Income Approach

(c) MM Model with taxes (d) Both (a) and (c)

105. In Traditional Approach, which one is correct?

- (a) k_e rises constantly (b) k_d decreases constantly
(c) k_0 decreases constantly (d) None of the above

106. Which of the following assumes constant k_d and k_e ?

- (a) Net Income Approach (b) Net Operating Income Approach

- (c) Traditional Approach (d) MM Model.

107. Which of the following is true?

- (a) Under Traditional Approach, overall cost of capital remains same,
(b) Under NI Approach, overall cost of capital remains same,
(c) Under NOI Approach, overall cost of capital remains same,
(d) None of the above.

108. The Traditional Approach to Value of the firm is that:

- (a) There is no optimal capital structure,
(b) Value can be increased by judicious use of leverage
(c) Cost of Capital and Capital structure are independent,
(d) Risk of the firm is independent of capital structure

109. A firm has EBIT of ₹ 50,000. Market value of debt is ₹ 80,000 and overall capitalization rate is 20%. Market value of firm under NOI Approach is:

- (a) 2,50,000 (b) 1,70,000 (c) 30,000 (d) 1,30,000.

120. Which of the following is incorrect for NOI?

- (a) k_0 is constant (b) k_d is constant
(c) k_e is constant (d) k_d & k_0 are constant

121. Which of the following is incorrect for value of the firm?

a) In the initial preposition, MM Model argues that value is independent of the financing mix.

(b) Total value of levered and unlevered firms is otherwise arbitrage will take place.

(c) Total value incorporates borrowings by firm but excludes personal borrowing.

(d) Total value does not change because underlying does not change with financing mix.

122. Which of the following appearing in the balance! generates tax advantage and hence affects the c, structure decision ?

(a) Reserves and Surplus (b) Long-term debt

(c) Preference Share Capital (d) Equity Share Capital

123. In MM Model with taxes, where 'r' is the interest rate, D is the total debt and 't' is tax

rate, then present valued shields would be:

(a) $r \times D \times t$ (b) $r \times D$ (c) $D \times t$ (d) $(D \times r) / (1 - t)$.

124. Walters Model suggests for 100% DP Ratio when

(a) $k_e = r$ (b) $k_e < r$ (c) $k_e > r$ (d) $k_e = 0$

125. If a firm has $k_e > r$ the Walter's Model suggests for

(a) 0% payout (b) 100% Payout (c) 50% Payout (d) 25% Payout

126. Walters Model suggests that a firm can always increase i.e. of the share by

(a) Increasing Dividend (b) Decreasing Dividend,

(c) Constant Dividend (d) None of the above

127. Bird in hand' argument is given by

(a) Walker's Model (b) Gordon's Model

(c) MM Mode (d) Residuals Theory

128. Residuals Theory argues that dividend is a

(a) Relevant Decision (b) Active Decision

(c) Passive Decision (d) Irrelevant Decision

129. Dividend irrelevance argument of MM Model is based on:

(a) Issue of Debentures (b) Issue of Bonus Share,

(c) Arbitrage (d) Hedging

130. Which of the following is not true for MM Model?

(a) Share price goes up if dividend is paid

(b) Share price goes down if dividend is not paid,

(c) Market value is unaffected by Dividend policy,

(d) All of the above

131. Which of the following stresses on investor's preference reorient dividend than higher future capital gains ?

(a)Walter's Model (b) Residuals Theory

(c) Gordon's Model (d) MM Model

132. Which of the following generally not result in increase in total dividend liability ?

(a)Share-split (b)Right Issue

(c)Bonus Issue (d)All of the above

133. Dividends are paid out of

(a)Accumulated Profits (b)Gross Profit

(c)Profit after Tax (d)General Reserve

134. In India, Dividend Distribution tax is paid on

(a)Equity Share (b)Preference Share

(c)Debenture (d)Both (a) and (b)

135. Every company should follow

(a)High Dividend Payment (b)Low Dividend Payment

(c)Stable Dividend Payment (d)Fixed Dividend Payment

136. Constant Dividend Per Share' Policy is considered as:

(a) Increasing Dividend Policy (b) Decreasing Dividend Policy

- (c)Stable Dividend Policy (d) None of the above
137. Which of the following is not a type of dividend payment?
- (a) Bonus Issue (b) Right Issue(c) Share Split (d) Both (b) and (c)
138. If the following is an element of dividend policy?
- (a) Production capacity, (b) Change in Management,
(c) Informational content, (d) Debt service capacity
139. Stock split is a form of
- (a) Dividend Payment, (b)Bonus Issue,
(c) Financial restructuring, (d) Dividend in kind
140. In stock dividend:
- (a)Authorized capital always increases (b)Paid up capital always increases
(c) Face value per share decreases (d) Market price for share decreases
141. Which of the following is not considered in Lintner's Model ?
- (a) Dividend payout ratio, (b)Current EPS,
(c)Speed of Adjustment, (d)Preceding year EPS
1142. Which of the following is not relevant for dividend payment for a year
- (a)Cash flow position (b)Profit position,
(c)Paid up capital, (d) Retained Earnings
143. Cash Budget does not include
- (a) Dividend Payable (b)Postal Expenditure,
(c) Issue of Capital, (d)Total Sales Figure.
144. Which of the following is not a motive to hold cash?

- (a) Transactionary Motive, (b)Pre-scautionary Motive,
(c)Capital Investment, (d)None of the above.
145. Cheques deposited in bank may not be available for immediate use due to
(a) Payment Float (b)Recceipt Float
(c) Net Float, (d)Playing the Float.
146. Difference between between the bank balance as per Cash Book and Pass Book may be due to:
(a) Overdraft, (b) Float, (c) Factoring, (d)None of the above.
147. Concentration Banking helps in
(a) Reducing Idle Bank Balance (b)Increasing Collection,
(c)Increasing Creditors, (d)Reducing Bank Transactions.
148. The Transaction Motive for holding cash is for
(a) Safety Cushion (b)Daily Operations,
(c)Purchase of Assets (d)Payment of Dividends.
149. Miller-Orr Model deals with
(a)Optimum Cash Balance, (b)Optimum Finished goods,
(c)Optimum Receivables, (d)All of the above.
- 150.Float management is related to
(a)Cash Management, (b)Inventory Management,
(c)Receivables Management, (d)Raw Materials Management
- 151.Which of the following is not an objective of cash management ?
a)Maximization of cash balance (b)Minimization of cash balance

- (c) Optimization of cash balance (d) Zero cash balance.

152. Which of the following is not true of cash budget ?

(a) Cash budget indicates timings of short-term borrowing, (b) Cash budget is based on accrual concept

(c) Cash budget is based on cash flow concept

(d) Repayment of principal amount of loan is shown in cash budget.

153. Baumol's Model of Cash Management attempts to:

(a) Minimise the holding cost,

(b) Minimization of transaction cost, (c) Minimization of total cost, (d) Minimization of cash balance.

154. Which of the following is not considered by Miller-Orr Model?

(a) Variability in cash requirement (b) Cost of transaction,

(c) Holding cost, (d) Total annual requirement of cash.

155. Marketable securities are primarily

(a) Equity shares, (b) Preference shares,

(c) Fixed deposits with companies (d) Short-term debt investments.

156. 5Cs of the credit does not include

(a) Collateral (b) Character,

(c) Conditions, (d) None of the above

157. Which of the following is not an element of credit policy?

(a) Credit Terms (b) Collection Policy

(c) Cash Discount Terms, (d) Sales Price

158. Ageing schedule incorporates the relationship between
- (a) Creditors and Days Outstanding
 - (b) Debtors and Days Outstanding
 - (c) Average Age of Directors,
 - (d) Average Age of All Employees.
159. Bad debt cost is not borne by factor in case of
- (a) Pure Factoring
 - (b) Without Recourse Factoring,
 - (c) With Recourse Factoring
 - (d) None of the above
160. Which of the following is not a technique of receivables Management?
- (a) Funds Flow Analysis
 - (b) Ageing Schedule,
 - (c) Days sales outstanding
 - (d) Collection Matrix.
161. Which of the following is not a part of credit policy?
- (a) Collection Effort
 - (b) Cash Discount,
 - (c) Credit Standard
 - (d) Paying Practices of debtors.
162. Which is not a service of a factor?
- (a) Administering Sales Ledger
 - (b) Advancing against Credit Sales,
 - (c) Assuming bad debt losses,
 - (d) None of the above.
163. Credit Policy of a firm should involve a trade-off between increased
- (a) Sales and Increased Profit
 - (b) Profit and Increased Costs of Receivables,
 - (c) Sales and Cost of goods sold,
 - (d) None of the above.
164. Use of safety stock by a firm would
- (a) Increase Inventory Cost
 - (b) Decrease Inventory Cost,

- (c) No effect on cost (d) None of the above

165. Which of the following is true for a company which uses continuous review inventory system

- (a) Order Interval is fixed (b) Order Interval varies,
(c) Order Quantity is fixed (d) Both (a) and (c)

167. EOQ determines the order size when

- (a) Total Order cost is Minimum (b) Total Number of order is least,
(c) Total inventory costs are minimum (d) None of the above.

168. ABC Analysis is useful for analyzing the inventories:

- (a) Based on their Quality (b) Based on their Usage and value
(c) Based on Physical Volume (d) All of the above

169. If A = Annual Requirement, O = Order Cost and C = Carrying Cost per unit per annum, then EOQ

- (a) $(2AO/C)^{1/2}$ (b) $2AO/$ (c) $2A \div O \ C$ (d) $2AOC$

170.. Inventory is generally valued as lower of

- (a) Market Price and Replacement Cost (b) Cost and Net Realizable Value
(c) Cost and Sales Value (d) Sales Value and Profit.

171.. Which of the following is not included in cost of inventory?

- (a) Purchase cost (b) Transport in Cost,
(c) Import Duty, (d) Selling Costs.

172. Cost of not carrying sufficient inventory is known as

- (a) Carrying Cost (b) Holding Cost (c) Total Cost (d) Stock-out Cost

173. Which of the following is not a benefit of carrying inventories

- (a) Reduction in ordering cost,
(b) Avoiding lost sales,
(c) Reducing carrying cost,
(d) Avoiding Production Shortages.

174. Which of the following is not a standard method of inventory valuation?

- (a) First in First out (b) Standard Cost
(c) Average Pricing (d) Realizable Value

175. System of procuring goods when required, is known as,

- (a) Free on Board (FOB) (b) always Butter Control (ABC),
(c) Just in Time (JIT) (d) Economic Order Quantity.

176 . A firm has inventory turnover of 6 and cost of goods sold is 7,50,000. With better inventory management, the inventory turnover is increased to 10. This would result in:

- (a) Increase in inventory by 50,000, (b) Decrease in inventory by 50,000, (c) Decrease in cost of goods sold, (d) Increase in cost of goods sold.

177. What is Economic Order Quantity?

- (a) Cost of an Order (b) Cost of Stock
(c) Reorder level (d) Optimum order size.

178. 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
179. Which of the following is a liability of a bank?
- (a) Treasury Bills, (b) Commercial papers,
(c) Certificate of Deposits, (d) Junk Bonds.
- 180.. Commercial paper is a type of
- (a) Fixed coupon Bond (b) Unsecured short-term debt
(c) Equity share capital, (d) Government Bond
181. 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.
182. Concept of Maximum Permissible Bank finance was introduced by
- (a) Kannan Committee (b) Chore Committee,
(c) Nayak Committee, (d) Tandon Committee.
183. In India, Commercial Papers are issued as per the guidelines issued by
- (a) Securities and Exchange Board of India,
(b) Reserve Bank of India,
(c) Forward Market Commission,
(d) None of the above.
184. Commercial paper are 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
185. Which of the following is not applicable to commercial paper

(a)Face Value (b)Issue Price

(c)Coupon Rate (d)None of the above.

187. Cash discount terms offered by trade creditors never be accepted because

(a)Benefit in very small (b)Cost is very high

(c)No sense to pay earlier (d)None of the above.

188. In lease system, interest is calculated on

(a)Cash down payment (b)Cash price outstanding

(c)Hire purchase price(d)None of the above

189. A short-term lease which is often cancellable is known as

(a)Finance Lease (b)Net Lease,

(c)Operating Lease (d)Leverage Lease

190. Which of the following is not a usual type of lease arrangement?

(a)Sale & leaseback, (b)Goods on Approval,

(c)Leverage Lease, (d)Direct Lease

181 Under income-tax provisions, depreciation on lease asset is allowed to

(a) Lessor (b)Lessee

(c) Any of the two (d)None of the two

192 . Under the provisions of AS-19 'Leases', a leased asset is shown in the balance sheet of

(a)Manufacturer (b)Lessor (c)Lessee (d)Financing bank

193 .A lease which is generally not cancellable and covers full economic life of the asset is known as

(a) Sale and leaseback, (b) Operating Lease

(c) Finance Lease, (d) Economic Lease

194 . Lease which includes a third party (a lender) is known as

(a) Sale and leaseback (b) Direct Lease,

(c) Inverse Lease, (d) Leveraged Lease

195 . One difference between Operating and Financial lease is: (a) There is often an option to buy in operating lease (b) There is often a call option in financial lease.

(c) An operating lease is generally cancelable by lease

(d) A financial lease is generally cancelable by lease.

196 . From the point of view of the lessee, a lease is a:

(a) Working capital decision, (b) Financing decision,

(c) Buy or make decision, (d) Investment decision

197 . For a lessor, a lease is a

(a) Investment decision, (b) Financing decision,

(c) Dividend decision (d) None of the above.

198 . Which of the following is not true for a "Lease decision for the lessee?"

(a) Helps in project selection (b) Helps in project financing

(c) Helps in project location (d) All of the above.

199 Risk-Return trade off implies

(a) Minimization of Risk, (b) Maximization of Risk,

(c) Ignorance of Risk (d) Optimization of Risk

200. Basic objective of diversification is

- (a) Increasing Return, (b) Maximising Return,
- (c) Decreasing Risk, (d) Maximizing Risk.

201 . Risk-aversion of an investor can be measured by

- (a) Market Rate of Return (b) Risk-free Rate of Return,
- (c) Portfolio Return, (d) None of the above.

202 .If the intrinsic value of a share is less than the market price, which of the most reasonable?

- (a) That shares have lesser degree of risk
- (b) That market is over valuing the shares
- (c) That the company is high dividend paying,
- (d) That market is undervaluing the share

Answer key

- | | | | | |
|---------|---------|---------|---------|---------|
| 1. (d) | 2. (a) | 3. (a) | 4. (d) | 5. (b) |
| 6. (b) | 7. (b) | 8. (b) | 9. (b) | 10. (d) |
| 11. (b) | 12. (c) | 13. (c) | 14. (d) | 15. (d) |
| 16. (c) | 17. (b) | 18. (c) | 19. (a) | 20. (c) |
| 21. (b) | 22. (c) | 23. (b) | 24. (d) | 25. (b) |
| 26. (b) | 27. (b) | 28. (b) | 29. (a) | 30. (b) |
| 31. (d) | 32. (a) | 33. (d) | 34. (b) | 35. (d) |
| 36. (d) | 37. (c) | 38. (c) | 39. (c) | 40. (b) |
| 41. (c) | 42. (c) | 43. (b) | 44. (c) | 45. (b) |
| | | | | 46. (a) |

47.	(b)	48.(a)	49.	(c)	50.	(c)	51.	(d)	52.(b)
53.	(c)	54.	(b)	55.(a)	56.	(d)	57.	(a)	58.(c)
59.	(d)	60.(b)	61.	(d)	62.	(d)	63.	(d)	64.(a)
65.	(c)	66.	(b)	67. (d)	68.	(a)	69.	(c)	70.(d)
71.	(a)	72.	(a)	73. (b)	74.	(c)	75.	(c)	76.(a)
77.	(b)	78.	(b)	79. (b)	80.	(d)	81.	(a)	82.(c)
83.	(c)	84.	(c)						
85.	(d)	86.	(b)	87.	(d)	88.	(b)	89.	(b)
90.	(c)								
91.	(c)	92.	(c)	93.	(d)	94.	(c)	95.	(b)
96.	(c)								
97.	(a)	98.	(d)	99.	(c)	100.	(a)	101.	(a)
102.	(c)								
103.(a)		104.(b)		105.(c)		106.	(c)	107.	(b)
108.(b)									
109.(b)		110.(b)		111.(b)		112.	(c)	113.	(c)
114.(d)									
115.(b)		116.(d)		117.(c)		118.	(c)	119.	(b)
120.(b)									
121.(b)		122.(a)		123.(d)		124.	(b)	125.	(b)
126.(b)									
127.(b)		128.(d)		129.(b)		130.	(c)	131.	(b)
132.(b)									
133 (a)		134 (c)		135 (a)		136	(c)	137	(c)
138(c)									
139 (c)		140 (d)		141(b)		142 (d)		143 (b)	144(d)
145(d)		146(a)		147(c)		148(b)		149(b)	150(c)
151(d)		152(b)		153(c)		154(c)		155(a)	156(d)
157(b)		158(c)		159(c)		160(c)		161(c)	162(b)
163(c)		164 (a)		165(c)		166(c)		167(b)	168(c)
169(b)		170(b)		171(c)		172(b)		173(a)	174(c)

175(d) 176(c) 177(c) 178(c) 179(c) 180(c)
181(d) 182(d) 183(d) 184. (d) 185.(c) 186.(b)
187. (b) 188. (b) 189. (b) 190. (a) 191. (a) 192.(c)
193. (b) 194. (c) 195. (d) 196. (d) 197. (d) 198.(d)
199. (b) 200. (c) 201. (a) 202. (d)

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Thank you

