

Sample Questions for Practice

Course: MFM/MMM/MHRDM – (Second Year) (Semester – I) (Choice Based) Dec 2020 Examinations

Subject: Financial Management

1. Which of the following would NOT improve the current ratio?
 - (a) Issue long-term debt to buy inventory.
 - (b) Sell common stock to reduce current liabilities.
 - (c) Sell fixed assets to reduce accounts payable.
 - (d) Borrow short term to finance additional fixed assets.

2. Dividend Payout Ratio is:
 - (a) $PAT \div Capital$
 - (b) $Pref. Dividend \div PAT$
 - (c) $Pref. Dividend \div Equity Dividend$.
 - (d) $DPS \div EPS$

3. _____ refers to the amount invested in various components of current assets.
 - (a) Gross working capital
 - (b) Temporary working capital
 - (c) Net working capital
 - (d) Permanent working capital

4. Determine Working capital turnover ratio if, Current assets is Rs 1,50,000, current liabilities is Rs 1,00,000 and Cost of goods sold is Rs 3,00,000.
 - (a) 5 times
 - (b) 6 times
 - (c) 3 times
 - (d) 1.5 times

5. ABC Ltd is implementing a project with initial capital outlay of ₹80000. Its cashflows for the four years are ₹60000, ₹20000, ₹10000 and ₹50000. What is the discounted payback period if the rate of return is 12%? (PV factors at 12%: Year 1: 0.893, Year 2: 0.797, Year 3: 0.712, Year 4: 0.636, Year 5: 0.567)
 - (a) 3 years 1 month
 - (b) 2 years 1 month
 - (c) 4 years 1 month
 - (d) 3 years 6 months

6. Which of the following is not a capital budgeting decision?
 - (a) Inventory Level
 - (b) Expansion Programme
 - (c) Merger
 - (d) Replacement of an Asset

7. All of the following influence capital budgeting cash inflows EXCEPT:
 - (a) tax rate changes.
 - (b) salvage value.
 - (c) accelerated depreciation.
 - (d) method of project financing used.

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8. In Capital Budgeting, Sunk cost is excluded because it is
 - (a) of small amount
 - (b) not relevant
 - (c) Cost is already occurred
 - (d) not incremental

9. Compute the PV for a bond that promises to pay interest of Rs 150 a year for 30 years and Rs 1000 at maturity. This first interest payment is paid one year from now. Use a rate of discount at 8%. (PVAF @ 8%, 30 years = 11.2578 and PVIF @ 8%,30 years =0.0994)
 - (a) Rs 1788.07
 - (b) Rs 99.38
 - (c) Rs 1688.67
 - (d) Rs 1877.04

10. Present value of a debenture of Z ltd (face value Rs. 100) is Rs 93.41. A debenture carries interest rate of 14% and is redeemable after 6 years. At what price should the debentures be redeemed after 6 years if investor expects a return of 16% on their investments? (PVAF @ 14%, 6 years = 3.6847 and PVIF @ 14%, 6 years =0.4104)
 - (a) Rs 101.9108
 - (b) Rs 1.91
 - (c) Rs 100
 - (d) Rs 98.08

11. Which of the following marketable securities is the obligation of a commercial bank?
 - (a) Negotiable certificate of deposit
 - (b) Repurchase agreement
 - (c) T-bills
 - (d) Commercial paper

12. Deep Discount Bonds are issued at
 - (a) Face Value
 - (b) Discount to Face Value.
 - (c) Maturity Value
 - (d) Premium to Face Value

13. 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) Healthy Return of Interest.

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14. 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.
15. A critical assumption of the net operating income (NOI) approach to valuation is:
Dividend Policy
- (a) that k_0 remains constant regardless of changes in leverage.
 - (b) that dividends increase at a constant rate.
 - (c) that debt and equity levels remain unchanged.
 - (d) that interest expense and taxes are included in the calculation.
16. The term "capital structure" refers to:
- (a) long-term debt, preferred stock, and common stock equity.
 - (b) current assets and current liabilities.
 - (c) total assets minus liabilities.
 - (d) shareholders' equity.
17. _____ enhance the market value of shares and therefore equity capital is not free of cost.
- (a) Dividends
 - (b) Face value
 - (c) Redemption value
 - (d) Book value
18. If the earnings per share is Rs.4, dividend pay out ratio is 40%, cost of equity capital is 20% and growth rate in the rate of return on investment is 15%, then the value of the stock according to the Gordon's value dividend capitalization model is
- (a) Rs.16
 - (b) Rs.24
 - (c) Rs.32
 - (d) Rs.40
19. There is deterioration in the management of working capital of XYZ Ltd. What does it refer to?
- (a) That debtors collection period has increased
 - (b) That the Profitability has gone up
 - (c) That Sales has decreased.
 - (d) That the Capital Employed has reduced
20. Net working capital refers to
- (a) current assets minus current liabilities.

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- (b) current assets.
 - (c) current assets minus inventories.
 - (d) total assets minus fixed assets.
21. How will the total amount of a company's working capital change when the company pays \$8,000 of its accounts payable?
- (a) The Total Decreases By \$8,000
 - (b) The Total Increases By \$8,000
 - (c) The Total Remains The Same
 - (d) The Total Decreases By \$16,000
22. Receivables Management deals with
- (a) Receipts of raw materials
 - (b) Creditors Payment
 - (c) Debtors collection
 - (d) Inventory Supervision
23. The payment terms 2/10, n/30 tell us that:
- (a) a 10% discount will be awarded if the payment is made within 2 days of invoice date; otherwise, the full amount is payable within 30 days of invoice date.
 - (b) a 2% discount will be awarded if the payment is made within 10 months of invoice date; otherwise, the full amount is payable within 30 months of invoice date.
 - (c) a 0.5% discount will be awarded if the payment is made within 10 days of invoice date; otherwise, the full amount is payable within 30 days of invoice date.
 - (d) a 2% discount will be awarded if the payment is made within 10 days of invoice date; otherwise, the full amount is payable within 30 days of invoice date.
24. If EOQ = 40 units, order costs are \$2 per order, and carrying costs are \$.20 per unit, what is the usage in units?
- (a) 10 units.
 - (b) 16 units.
 - (c) 40 units.
 - (d) 80 units.
25. Payment to creditors is a manifestation of cash held for
- (a) Transactionary Motive
 - (b) Precautionary Motive
 - (c) Speculative Motive
 - (d) Conservative Motive
