



Financial Management

11:00am to 1:00pm

Semester – II

June 6, 2010

SECTION A (ONE MARKS)

(1) The NPV or IRR of the project is determined by analyzing the _____ cash flows.

- (a) Pre tax
- (b) after-tax
- (c) before-tax
- (d) None of the above.

Answer : B

(2) A reduction in prices by a competitor can be called _____.

- (a) inflation risk
- (b) market risk
- (c) international risk
- (d) competition risk

Answer : D

(3) Dividend can be paid out in various forms such as;

- (a) Cash
- (b) scrip
- (c) bond
- (d) all of the above

Answer : D

(4) Capital expenditure decisions have their impact for a considerable period of time affecting the firm's _____ cost structure.

- (a) annual
- (b) overall
- (c) part
- (d) none

Answer : B

(5) The ideal capital structure should have minimum _____ of control.

- (a) Dilution
- (b) intensity
- (c) strength
- (d) potential

Answer : A

(6) The other name of net operating cycle is :

- (a) Business cycle
- (b) efficiency cycle
- (c) profit conversion cycle
- (d) cash conversion cycle

Answer : D

(7) . All earnings are either completely distributed or reinvested entirely

immediately, if the pay-out is:

- (a) 50%
- (b) 0%
- (c) 200 %
- (d) 100%

Answer : D

(8) _____ Holders are entitled to a fixed rate of dividend irrespective of the firm's earnings.

- (a) Equity
- (b) Preference
- (c) Ordinary
- (d) Stake

Answer : B

(9) In Current asset, the inventories will be _____ to cash within a year,

- (a) Considered
- (b) calculated
- (c) converted
- (d) projected

Answer : C

(10) .Credit period is the time given to customers to pay their _____.

- (a) Debts
- (b) shares
- (c) sales
- (d) purchase

Answer : D

(11) _____ is the surplus rate or extra rate that takes care of the risk factor .

- (a) composite rate
- (b) Risk premium rate
- (c) return rate
- (d) risk free rate

Answer : B

(12) The risk of holding _____ share is higher than holding a _____ share.

- (a) Bond, preference
- (b) stake, profit
- (c) preference, equity
- (d) equity, preference

Answer : D

(13) Rate is _____ for preference shareholders.

- (a) Fluctuating
- (b) variable
- (c) fixed
- (d) changed

Answer : C

(14) Does equity shareholders have maturity date?

- (a) Does not have any maturity date



IDEA INSTITUTE OF MANAGEMENT & TECHNOLOGY

3rd Floor, Kamar Trust Building, Aroma High School, Usmanpura, Ashram Road, Ahmedabad - 380013.

☎ : 2755 2040, 2755 2600, 9727 411 411 • www.ideaindia.org • info@ideaindia.org

- (b) 3 months from record date
(c) 8 months from record date
(d) None of the above

Answer : B

- (15) Profit maximization means, _____ the rupee income of the firm.
(a) Decreasing
(b) equalization
(c) increasing
(d) none of the above

Answer : C

- (16) The mix of debt and capital is known as the firm's _____.
(a) Infrastructure
(b) capital structure
(c) Management structure
(d) asset structure

Answer : B

(17) Financial Planning is laying down _____ to administer the usage of funds in the most appropriate way.

- (a) Policies
(b) infrastructure
(c) machinery
(d) Both A & C

Answer : A

- (18) Risk is directly related to:
(a) Returns
(b) capital structure
(c) equity share
(d) none of the above

Answer : A

- (19) The effective cost of debt is:
(a) Equal to the interest payment by the firm
(b) less than the interest payment
(c) more than the interest payment
(d) none of the above

Answer : B

- (20) The capital structure of a company should generate maximum returns to:
(a) Shareholders
(b) managers
(c) brokers
(d) none

Answer : A

- (21) .The categorization of a company's operating costs can be done as:
(a) Semi-variable costs
(b) fixed costs
(c) variable costs

(d) all of the above

Answer : D

(22) High Leveraged firms are considered very_____.

- (a) Definite
- (b) risky
- (c) positive
- (d) certain

Answer : B

(23) seasonal peak requirements to be met from _____ from banks

- (a) long term borrowing
- (b) medium term borrowing
- (c) short term borrowing
- (d) medium to large term borrowing.

Answer : C

(24) Financial Management deals with procurement of funds at the least cost and _____ funds

- (a) Effective Utilization
- (b) Procurement of funds
- (c) Formation of funds
- (d) Effective deployment

Answer : A

(25) Which of the following is the expression for operating leverage?

- (a) EBT/Contribution
- (b) Contribution/EAT
- (c) Contribution/EBIT
- (d) Quantity/EBIT

Answer : C

(26) _____ refers to the credit extended by the supplier of goods and services in the normal course of business transactions.

- (a) Floatation cost
- (b) Trade credit
- (c) Cash balance
- (d) Opportunity cost

Answer : B

(27) _____ is the mix of long term sources of funds like debentures, loans, preference shares, equity shares and retained earnings in different ratios

- (a) Capital
- (b) Capital budgeting
- (c) Capital structure
- (d) None of these

Answer : C

(28) The value of EBIT at which EPS is equal to zero is known as _____.

- (a) Break even point
- (b) Operating breakeven point
- (c) Financial break even point

(d) Overall break even point

Answer : C

(29) risk premium is the _____ that the investors require as compensation for assumption of additional risks of project

- (a) additional profit
- (b) additional return
- (c) risk adjusted rate of return
- (d) none of the above

Answer : B

(30) _____ examines the project from the social point of view.

- (a) technical appraisal
- (b) financial appraisal
- (c) economic appraisal
- (d) competitive appraisal

Answer : C

(31) _____ of a firm refers to the composition of its long term funds.

- (a) capitalization
- (b) equitilization
- (c) undercapitalization
- (d) overcapitalization

Answer : A

(32) the capital structure of a company should be within the _____

- (a) cash available capacity
- (b) assets available capacity
- (c) debt capacity
- (d) equity capacity

Answer : C

(33) _____ created out of fixed payments each period to accumulate to a future sum after a specified period

- (a) instrinsic value
- (b) compounded value
- (c) sinking fund
- (d) capital recovery

Answer : C

(34) Which of the following is not a method of pricing inventories?

- (a) FIFO
- (b) LIFO
- (c) Standard price method
- (d) Shadow price method

Answer : D

(35) _____ is the rate of return which makes the NPV of any project equal to zero

- (a) ARR
- (b) IRR
- (c) NPV

(d) MIRR
Answer : B

(36) All Capital Budgeting Decisions have three strategic elements – cost_____ & timing.

- (a) Finance
- (b) Investment
- (c) Dividend
- (d) Quality

Answer : B

(37) According to _____ approach, the intrinsic value of an equity share is the sum of present values dividends associated with it.

- (a) Dividend yield
- (b) Dividend payment
- (c) Dividend recorded
- (d) Dividend forecast.

Answer : A

(38) The present value of a future cash flow is the amount of the current cash that is _____ to the investor.

- (a) Equivalent
- (b) Higher
- (c) Lower
- (d) Neutral

Answer : A

(39) There is _____ relationship between retentions and dividends.

- (a) Inverse
- (b) proportionate
- (c) direct
- (d) indirect

Answer : A

(40) According to Dividend forecast approach, the intrinsic value of an equity share is the sum of _____ associated with it

- (a) Present value of retained earnings
- (b) Present value of dividends
- (c) Present value of reserve funds
- (d) None of these

Answer : B

SECTION B (2 MARKS)

(41) A Company earning more by the use of asset funded by fixed sources is said to be having leverage.

- (a) Positive
- (b) negative
- (c) favorable
- (d) both a & c

Answer : D

(42) The proper mix of funds is referred to as _____ capital structure.

- (a) Changing
(b) maximum
(c) modern
(d) optimal

Answer : D

(43) Calculate the DOL , where: Quantity produced and sold -1000 units, Variable Costs-Rs 100 per unit, Selling price per unit:Rs 300 per unit, Fixed expenses-Rs 20000.

- (a) 1.25
(b) 1.45
(c) 2.25
(d) 2.45

Answer : A

(44) ARR appeals to _____ who are familiar with the rate of return and find it easy to work.

- (a) managers
(b) stake holders
(c) shareholders
(d) businessmen

Answer : D

(45) _____ used by those who are facing a liquidity crunch and are therefore interested to know what is the earliest possible time to recover the investment,

- (a) evaluation method
(b) Pay-back method
(c) none
(d) Both A & B

Answer : B

(46) The main aim of Finance Manager is to _____ the shareholder's return with _____ risk,

- (a) Maximize, minimize
(b) minimize, maximize
(c) maximize, maximize
(d) minimize, minimize

Answer : A

(47) In investment and financing decisions, the flow of _____ is important,

- (a) Profit
(b) value
(c) cash
(d) resources

Answer : C

(48) The two essentials of company's financial statement:

- (a) P & L account, balance sheet
(b) debtors, creditors
(c) a/c payable, a/c receivable
(d) assets, liabilities

Answer : A

_____manager has to decide the source and proportion of debt, equity, shares and loans.

- (a) marketing
- (b) finance
- (c) production
- (d) human resource

Answer : B

(50) The amount of a company that can be realized if it sold the assets after winding up of its business.

- (a) Replacement value
- (b) market value
- (c) liquidation value
- (d) book value

Answer : C

(51) A person can save _____ annually to accumulate Rs. 400000 by the end of 10 years, if the saving earns 12%.

- (a) 22798
- (b) 22795
- (c) 22999
- (d) 25789

Answer : B

(52) The par value of a bond is Rs 500. It is currently traded at Rs. 435. The coupon rate is 12% with maturity period of 7 years. What will be the yield to maturity?

- (a) 14.03%
- (b) 12.03%
- (c) 15.03%
- (d) None

Answer : A

(53) When the net float is positive

(a) The balance of funds in the books of the firm is lower than the balance in the books of the bank

(b) The firm cannot issue cheques as it has overdrawn bank account in its own books

(c) The payment float is less than the collection float

(d) The balance of funds in the books of the bank is lower than the balance in the books of the firm.

Answer : A

(54) What is the important characteristic of the current assets which differentiates it from fixed assets?

- (a) Duration of holding
- (b) Tangibility
- (c) Generation of future benefits
- (d) Mode of financing

Answer : A

(55) Calculate the effective rate of interest if the nominal rate of interest is 12% and interest is compounded annually.

- (a) 12.5%

- (b) 12.8%
(c) 12.7%
(d) 12.6%

Answer : D

(56) If the current year's dividend is Rs.24, growth rate for one year is 10% and the required return on the stock is 16%, what is the intrinsic value of the stock?

- (a) Rs.440
(b) Rs.450
(c) Rs.475
(d) Rs.480

Answer : A

(57) The theory that considers dividend decision as an active variable in determining the value of the firm is:

- (a) Traditional
(b) modern
(c) Walter
(d) Gordon

Answer : B

(58) The CE approach recognizes the risk and incorporates it by_____the cash flow to CE cash flows.

- (a) Deflating
(b) inflating
(c) increasing
(d) decreasing

Answer : A

(59) The firm has to maintain the satisfactory level of working capital so as to avoid the firm from becoming:

- (a) Solvent
(b) bankrupt
(c) insolvent
(d) B & C

Answer : D

(60) What is PI for question no 47 ?

- (a) 1.1964
(b) 1.216
(c) 1.1632
(d) None

Answer : A

SECTION C (4 MARKS)

(61) Initial outlay-Rs 1lac, expected cash flows-Rs 50k, Rs. 31k, Rs 12k respectively over a 4 year period, Calculate the IRR?

- (a) 20%
(b) 20.05%
(c) 20.50%
(d) 21%

Answer : A

(62) Raj Metals are expected to declare a dividend of Rs 5 per share and the growth rate in dividends expected to grow @ 10% p.a. the price of one share is currently at Rs 110 in the market. What is the cost of equity capital to the company?

- (a) 14.74 %
- (b) 14.54 %
- (c) 14 %
- (d) 14.83%

Answer : B

(63) Arrange in descending order as per their risk tendency.

(i) Debt (ii) risk free security (iii) preference shares (iv) equity share (v) govt bonds

- (a) iv, iii, i, v, ii
- (b) ii, v, i, iv, iii
- (c) i, ii, iii, iv, v
- (d) v, i, iv, ii, iii

Answer : A

(64) A loan of Rs. 10000 is to be repaid in 5 equal annual installments. If the loan carries a rate of 14% p.a, what is the amount of each installment?

- (a) 29000
- (b) 28765
- (c) 29129
- (d) 29329

Answer : C

(65) Y Labs is expected to pay Rs 4 as dividend share next year. The dividends are expected to grow perpetually @ 8%. Calculate the share price today if the market capitalization is 12%?

- (a) Rs 100
- (b) Rs 101
- (c) Rs. 99
- (d) Rs. 100.01

Answer : A

(66) Agam Industries wishes to issue bonds with Rs. 100 as par value, coupon rate 12% an YTM 5 years. What is the value of the bond if the required rate of return is 12%, 14% and 10%?

- (a) Rs. 99.96, Rs. 93.10, Rs. 107.59
- (b) Rs. 101, Rs. 94, Rs. 109
- (c) Rs. 98, Rs. 92.10, Rs. 106.89
- (d) Rs. 91.45, Rs. 90.10, Rs. 100.59

Answer : A

(67) Arrange the following in the ascending order, in which they are applied for financial planning:

- (i) Establish (ii) determination (iii) forecast (iv) develop (v) projection
- (a) ii, v, i, iv, iii
- (b) i, ii, iii, iv, v
- (c) v, ii, iii, i, iv
- (d) iii, iv, i, ii, v

Answer : C

(68) An investor may be interested in investing money in installments and wish to know the value of his savings after n years. For example, Mr. Madan invests Rs. 500, Rs. 1000, Rs. 1500, Rs. 2000 and Rs. 2500 at the end of each year for 5 years. Calculate the value at the end of 5 years compounded annually if the rate of interest is 5% p.a.

- (a) Rs. 8000
- (b) Rs. 8020
- (c) Rs. 6050
- (d) RS. 7090

Answer : B

(69) .A manufacturing company has an expected usage of 50000 units of certain product during the next year. Re cost of processing an order is Rs.20 and the carrying cost per unit per annum is Rs.0.5 Lead time for an order is 5 days and the company will keep a reserve of 2 days usage. Calculate re-order point. Assume 250 days in a year.

- (a) 1400 units
- (b) 1500 units
- (c) 1900 units
- (d) 2500 units

Answer : A

(70) .A project costs Rs. 25000 and is expected to generate cash inflows asYear
Cash in Flows (Rs.) 10,000 2 8,000 3 9,000 4 6,000 5
7,000 The cost of capital is 12%. Calculate NPV.]

- (a) 4000
- (b) 4499
- (c) 4599
- (d) 4955.

Answer : B

(71) Laksmi Enterprise wants to have an issue of non-convertible debentures for Rs. 10 Cr. Each debenture is of a par value of Rs. 100 having an interest rate of 15%. Interest is payable annually and they are redeemable after 8 years at a premium of 5%. The company is planning to issue the NCD at a discount of 3% to help in quick subscription. If the corporate tax rate is 50%, what is the cost of debenture to the company?

- (a) $K_d = 8.00\%$
- (b) $K_d = 8.40\%$
- (c) $K_d = 8.25\%$
- (d) $K_d = 8.90\%$

Answer : B

(72) What is the rate of return for a company if its β is 1.5, risk free rate of return is 8 % & market rate of return is 20 %

- (a) 25 %
- (b) 24%
- (c) 26%
- (d) None.

Answer : D

(73) Assume that the economy has unexpectedly and immediately gone into a recession. Which of the following firms that are in the same industry and face the same business risks would most likely see the largest increase in the present value of bankruptcy costs?

- (a) A firm with the highest proportion of common equity financing
(b) A firm with the highest proportion of debt financing
(c) A firm with the lowest proportion of preferred stock financing
(d) All firms will see an identical rise in the present value of bankruptcy costs
- since the business risk is the same

Answer : B

(74) Using the following information, the % change in EPS of the two levels of ABC Ltd. is _____

	Old level	New level
Net profit	1, 70,000	2, 20,000
No. of shares	80,000	80,000
Sales (units)	2, 00,000	2, 50,000

- (a) 29.4% increase
(b) 29.4% decrease
(c) 0.77% increase
(d) 0.77% decrease

Answer : A

(75) Annual cost requirement Rs. 2,00,00,000 Opportunity cost of capital 15% p.a
Transaction cost Rs. 150 What is the optimum cash balance?

- (a) 200000
(b) 400000
(c) 30000
(d) 20000

Answer : A