UNIT -I – BISINESS FIANANCE

Q. No	Questions	Answer
1	----------Is concerned with the acquisition, financing, and management of assets with some overall goal in mind. • Financial Management • Profit Maximization • Agency Theory • Social Responsibility.	A
2	_____is concerned with the maximization of a firm's earnings after taxes. • Shareholder wealth maximization • Profit maximization • Stakeholder maximization • EPS maximization	B
3	What is the most appropriate goal of the firm? • Shareholder wealth maximization. • Profit maximization. • Stakeholder maximization. • EPS maximization.	A
4	The decision involves determining the appropriate make-up of the right-hand side of the balance sheet. • Asset management • Financing • Investment • Capital budgeting	B
5	To whom does the Treasurer most likely report? • Chief Financial Officer. • Vice President of Operations. • Chief Executive Officer. • Board of Directors.	A
6	The decision involves efficiently managing the assets on the balance sheet on a day-to-day basis, especially current assets.	A

	• Asset management. • Financing. • Investment • Accounting	
7	Which of the following is not normally a responsibility of the controller of the modern corporation? • Budgets and forecasts. • Asset management. • Financial reporting to the IRS. • Cost accounting.	**B**
8	All constituencies with a stake in the fortunes of the company are known as. • Shareholders. • Stakeholders. • Creditors. • Customers	**B**
9	One primary macroeconomic variable that helps define and explain the discipline of finance? • Capital structure • Inflation • Technology • • Risk	**C**
10	Which of the following is a financial statement that states items on a cash basis? • The income statement • The balance sheet • The statement of cash flows • None of the above	**C**
11	The ability of a firm to convert an asset to cash is called. • Liquidity • Solvency • Return • Marketability	**A**
12	Early in the history of finance, an important issue was: • Liquidity • Technology • Capital structure • Financing options	**A**
13	One major disadvantage of the sole proprietorship is. • Simplicity of decision- making	**B**

	• Unlimited liability • Low operational costs • None of the above	
14	Which of the following is not a government agency? • Internal Revenue Service (IRS) • Security and Exchange Commission (SEC) • American Accounting Association (AAA) • Federal Deposit Insurance Corporation	**C**
15	An investigation of financial statements designed to determine their fairness in relation to generally accept accounting principles is called which of the following? • Internal control structure • External control structure • Bookkeeping • Audit • Management accounting	**D**
16	You made a Rs. 10,000 loan to your cousin's company. At the end of one year, the company returned to you Rs. 10,850. The Rs. 850 is called which one of the following? • Return of investment • Return on investment • An 8.5% return on investment • B and C	**D**
17	Which of the following shows the details of the company's activities involving cash during a period of time? • Income statement • Statement of financial position • Balance sheet • Revenue - Costs = Profits • None of the above	**D**
18	Which of the following shows details and results of the company's profit-related activities for a period of time? • Balance sheet • Income statement • Statement of cash flows • Statement of financial position	**D**
19	The personnel, procedures, devices, and records used by an organization to develop accounting information and communicate that information to decision makers are called which of the following?	**B**

	• Audits • Accounting systems • Internal control structures • Personnel systems	
20	Which of the following financial statements is also known as a statement of financial position? • Balance sheet • Statement of cash flows • Income statement • None of the above	**A**
21	Which of the following refers to recording the routine transactions and day-today record keeping of an enterprise? • Financial accounting • Bookkeeping • Tax accounting • Cost and Management accounting	**B**
22	Which of the following involves determining the cost of certain business activities and interpreting cost information? • Management accounting • Cost accounting • Financial accounting • Bookkeeping	**B**
23	Which of the following provides information that is intended primarily for use by internal management in decision making required to run the business? • Financial accounting • Management accounting • Cost accounting • Tax accounting	**B**
24	"Shareholder wealth" in a firm is represented by: • The number of people employed in the firm. • The book value of the firm's assets less the bookvalue of its liabilities. • The amount of salary paid to its employees. • The market price per share of the firm's common stock.	**D**
25	The long-run objective of financial management is to: • Maximize earnings per share. • Maximize the value of the firm's common stock. • Maximize return on investment. • Maximize market share.	**B**

26	The market price of a share of common stock is determined by: • The board of directors of the firm. • The stock exchange on which the stock is listed. • The president of the company. • Individuals buying and selling the stock	**D**
27	The main point of financial management in a firm is: • The creation of value for shareholders. • The dollars profits earned by the firm. • The minimization of the amount of taxes paid bythe firm. • The number and types of products or servicesprovided by the firm.	**A**
28	The decision function of financial management can bebroken down into the decisions. • Financing and investment • Investment, financing, and asset management • Financing and dividend • Capital budgeting, cash management, andcredit management	**B**
29	The controller's responsibilities are primarily_____in nature, while the treasurer's responsibilities are primarily related to. • Operational; financialmanagement • Financial management;accounting • Accounting; financialmanagement • Financial management;operations.	**B**
30	A company's is (are) potentially the most effective instrument of good corporate governance. • Common stock shareholders • Board of directors • Top executive officers • Shareholder	**B**
31	Which of the following enjoys limited liability? • A general partnership. • A corporation. • A sole proprietorship. • None of the above.	**B**
32	A corporation in which you are a shareholder has just gone bankrupt. Its liabilities are far in excess of its assets. You will	**D**

	be called on to pay: • A proportionate share of bondholder claims based on the number of common shares that you own. • A proportional share of all creditor claims based onthe number of common shares that you own. • An amount that could, at most, equal what youoriginally paid for the shares of common stock in the corporation. • Nothing	
33	A major advantage of the corporate form of organization is: • Reduction of double taxation. • Limited owner liability. • Legal restrictions. • Ease of organization.	**B**
34	The principle of financial markets is to: • Allocate savings efficiently. • Lower the yield on bonds. • Manage inflation. • Boost the price of common stocks.	**A**
35	How are funds allocated efficiently in a market financial system? • The most powerful economic unit receives the funds. • The economic unit that considers it most in need of funds receives them. • The economic unit that is willing to pay the highest expected return receives the funds. • Receipt of the funds is rotated so that each economic unit can receive them in turn.	**C**
36	What's the worth to you of a Rs. 1,000 face-value bond with an 8% coupon rate when your required rate of return is 15 percent? • More than its face value. • True. • Rs. 1,000. • Less than its face value.	**D**
37	If the intrinsic value of a stock is bigger than its market value, which of the following is a realistic conclusion? • The stock has a low level of risk. • The market is undervaluing the stock. • The stock offers a high dividend payout ratio. • The market is overvaluing the stock.	**B**

38	When the market's required rate of return for a particular bond is much less than its coupon rate, the bond is selling at: • Face value. • A premium. • Cannot be determined without more information. • A discount.	**B**
39	If an investor may have to sell a bond prior to maturity and interest rates have risen since the bond was purchased, the investor is exposed to • Interest rate risk. • The coupon effect. • A perpetuity. • An indefinite maturity.	**A**
40	PIA will pay a Rs 4 dividend next year on its common stock, which is at present selling at Rs 100 per share. What is the market's required return on this investment if the dividend is likely to grow at 5% forever? • 4 percent. • 9 percent. • 7 percent. • 5 percent.	**B**
41	Interest rates and bond prices: • Sometimes move in the same direction, sometimes in opposite directions. • Have no relationship with each other (i.e., they are independent). • Move in opposite directions. • Move in the same direction.	**C**
42	The likely rate of return on a bond if bought at its current market price and held to maturity. • Yield to maturity • Capital gains yield • Coupon yield • Current yield	**A**
43	In which type of business all owners share in gains and losses and all have unlimited liability for all business debts . . . . • Sole proprietorship • General Partnership • Limited Partnership • Corporation • All of them	**B**

44	During the accounting period, sales revenue is Rs. 25,000 and accounts receivable increased by Rs. 8,000. What will be the amount of cash received from customers for the period . . . . • Rs. 33,000 • Rs. 25,000 • Rs. 17,000 • Rs. 8,000 • Rs. 20,000 • none of these	**C**
45	Is concerned with the Acquisition financing and management of assets with some overall goal in mind. . . . • Financial management • Profit maximization • Agency theory • Social responsibility • A and B	**A**
46	In which form of Business owners have limited liability is . . . . • Sole Proprietorship • Partnership • Joint Stock Company • Entrepreneurs • A and B	**C**
47	Profit is maximum when: • Distance between TR and TC is maximum • Distance between AR and AC is maximum • Distance between MR and MC is maximum • None of these	**A**
48	Economic profit is: • Part of total cost • Total revenue minus total cost • Total revenue minus explicit cost • Total variable cost minus total fixed cost	**B**
49	A firm earns economic profit when total profit exceeds: • Normal profit • Implicit costs • Explicit costs • Variable costs	**A**

50	The basic goal of a firm is to: • Maximize revenues • Maximize welfare of its employees • Maximize profit • Maximize output	**C**

UNTI-II - TECHNIQUES OF FINANCIAL STATEMENT ANANLYSIS

Q. No	Questions	Answer
1	Financial statements of a company include: • Balance Sheet. • Profit or Loss Account. • Cash Flow Statements. • All of the above	D
2	Balance Sheet shows: • Financial position of a Company. • Profit or Loss of a Company. • Cash flow of a Company. • None of the above.	A
3.	Profit and loss account shows: • Financial position of a Company. • Operating efficiency • Cash flow of a Company. • None of the above.	B
4.	Balance Sheet provides information about the financial position of the enterprise • At a point of time. • Over a period of time. • For a period of time. • None of the above.	A
5	Which section of the Companies Act requires that Balance Sheet is to be prepared in the prescribed form? • Sec 125 • Sec 126 • Sec 127 • Sec 129	D
6	Which of the following is prepared on a particular date? • Trading account • Profit & loss account • Balance sheet • All of the above	C

7	Which of the following financial statements shows a firm's financial position on a particular date? • Cash flow statement • Funds flow statement • Balance sheet • Comparative statements	**C**
8	Which of the following is not an internal user of financial statement? • Investors • Income tax authorities • Trade unions • All of the above	**D**
9	Which of the following is an internal user of financial statement? • Owners • Employees • Managers • All of the above	**D**
10	Which of the following are the external users of financial statements? • Government • Banks • Creditors • All of the above	**D**
11	Which of the following is not an objective of financial statements? • To show company's financial position. • To shown company's operating efficiency. • To the effectiveness of management. • To determine income tax liability	**D**
12	Which of the following is not an objective of financial statements analysis? • To assess operating efficiency of the firm. • To assess the short term and long term financial position. • To make inter-firm comparison. • To calculate income tax liability	**D**

13	Which of the following is true about financial statements? • financial statement gives a summary of accounts. • financial statements can be stated as recorded facts. • financial statements are the end products of accounting process. • All of the above	**D**
14	Most commonly used tools for financial analysis are: • Horizontal Analysis. • Vertical Analysis. • Ratio Analysis. • All of the above	**D**
15	Annual Report is issued by a company to it's: • Directors. • Auditors. • Shareholders. • Management.	**C**
16	All of the following are true of a financial statement analysis report, except: • Financial analysis provides an insight into the structure of financial statements. • The term financial statement analysis includes only analysis and does not include interpretations • Financial analysis is used only by the creditors. • Financial analysis is based on the financial statement	**C**
17	Dividend is usually paid on: • Authorised capital • Issued share capital • Paid up capital • Called up share capital	**C**
18	The 3ps that is the three objectives of analysis and interpretation of financial statements does not include: • Progress • Prospect • Position • Profitability	**D**

19	Horizontal analysis is done by analyzing: • Financial statements of more than one year • Financial statements of one year • Quarterly financial statements • Half yearly financial statements	**A**
20	In performing a vertical analysis, the base for prepaid expenses is: • Total of balance sheet • Total of current assets • Total of fixed assets • Total sales	**A**
21	All of the following statements regarding horizontal analysis are true except: • Horizontal analysis is also known as dynamic analysis. • Comparative statements are the form of horizontal analysis. • Horizontal analysis is done by analyzing financial statements of more than one year. • Each particular of financial statements are shown as a percentage of total of some common base.	**D**
22	Financial analysis is significant because it: • Ignores qualitative aspect • Judges financial position and operational efficiency • Suffers from the limitations of financial statements • It is affected by personal ability and bias of the analysis	**B**
23	Which one of the following statement is not a tool in financial statement analysis? • Ratio analysis • Common size statement • Comparative statements • Marginal costing	**D**
24	Which of these are not the methods of financial statement analysis? • Ratio analysis • Comparative analysis • Trend analysis • Capitalization method	**D**

25	Analysis of any financial statement comprises • Balance sheet • Profit & loss account • Both (a) & (b) • none of these	**C**
26	Comparative financial analysis process shows the comparison between the items of which statement? • Balance sheet • Income statement • Both a) & b) • None of the above	**C**
27	Financial statements are: • Anticipated facts • Recorded facts • Estimated facts • none of these	**B**
28	Proprietory Ratio indicates the relationship between proprietor's funds and…. • Reserve • Share Capital • Total Assets • Debentures	**C**
29	Which one of the following ratios is most important in determining the long-term solvency of a company ? • Profitability Ratio • Debt-Equity Ratio • Stock Turnover Ratio • Current Ratio	**B**
30	Total Assets ₹ 8,10,000 Total Liabilities ₹ 2,60,000 Current Liabilities ₹ 40,000 Debt-equity ratio is: • 0.05 : 1 • 0.4 : 1 • 2.5 : 1 • 4 : 1	**C**

31	Equity share capital ₹ 15,00,000 Reserve and Surplus ₹ 7,50,000 Total Assets ₹ 45,00,000 Properletory Ratio ? • 50% • 33.3% • 200% • 60%	**A**
32	Total Assets ₹ 7,70,000 Total Liabilities ₹ 2,60,000 Current Liabilities ₹ 40,000 Total Assets to Debt Ratio is: • 3.5 : 1 • 2.56 : 1 • 2.8 : 1 • 3 : 1	**A**
33	Profitability Ratios are generally expressed in : • Simple Ratio • Percentage • Times • None of these	**B**
34	The ratios are primarily measures of earning capacity of the business. • Liquidity • Activity • Debt • Profitability	**D**
35	The gross profit ratio is the ratio of gross profit to : • Net Cash Sales • Net Credit Sales • Closing Stock • Net Total Sales	**D**
36	Operating Ratio is: • Profitability Ratio • Activity Ratio • Solvency Ratio • None of these	**A**

37	Which of the following is an operating' income ? • Sale of Merchandise • Interest Income • Dividend Income • Profit on the sale of old car	**A**
38	Which of the following non-operating expense? • Rent • Selling Expenses • Wages • Loss on Sale of Machinery	**D**
39	When opening stock is ₹ 50,000 closing stock ₹ 60,000 and cost of goods sold is ₹ 2,20,000, then stock turn over ratio is: • 2 times • 3 times • 4 times • (d) 5 times	**A**
40	Cost of goods sold : • Sales – Net profit • Sales – Gross profit • Purchases – Opening Stock • (d) None of the above	**B**
41	The ideal liquid ratio is : • 2 : 1 • 1 : 1 • 5 : 1 • 4 : 1	**A**
42	Current Ratio includes: • Stock • Debtors • Cash • All of these	**D**

43	Which of the following assets is not taken into consideration in calculating acid-test ratio ? • Cash • Bills Receivable • Stock • None of these	**C**
44	When Cash is 7 10,000 Stock is 7 25,000, B/R is 7 5,000 Creditors is 7 22,000 and Bank Overdraft is 7 8,000 then current ratio is : • 2 : 1 • 4 : 3 • 3 : 4 • 1 : 2	**B**
45	Debt-equity ratio is : • Liquidity Ratio • Activity Ratio • Solvency Ratio • Operating Ratio	**C**
46	The formula for finding out Debt-Equity Ratio is: • Long-term Debts/Shareholders' Funds • Debentures/Equity Capital • Net Profit/Total Capital • None of these	**A**
47	The term 'Current Liabilities' does not include: . • Sundry Creditors • Debentures • Bills Payable • Outstanding Expenses	**B**
48	To test the liquidity of a concern which of the following ratios is useful ? • Capital Turnover Ratio • Acid Test Ratio • Stock Turnover Ratio • Net Profit Ratio	**B**

49	Which of the following transactions will improve the current ratio ? • Purchase of good for cash • Cash received from customers • Payment of creditors • Credit purchase of goods	**C**
50	The term‘Current Assets’include • Long-term Investment • Short-term Investment • Furniture • Preliminary Expenses	**B**

UNIT -III - WORKING CAPITAL MANAGEMENT

Q. No	Questions	Answer
1	Which of the following statements are correct? • Working Capital is also known as circulating capital. • Large organisation needs larger working capital. • Shortage of working capital reduce return on investment • All of the above	D
2	The major current assets are ---- • cash and marketable securities • accounts receivable (debtors) • inventory (stock) • All of the above	D
3	The basic current liabilities are ---- • accounts payable and bills payable • bank overdraft • outstanding expenses. • All of the above	D
4	There are two concepts of working capital – gross and ____ • Zero • Net • Cumulative • Distinctive	B
5	Working capital is also known as___ capital. • current asset • Operating • projecting • Operation capital	B
6	___ working Capital refers to the firm's investment in current assets. • Zero • Net • Gross • Distinctive	C
7	n finance, "working capital" means the same thing as _____ assets. • Current • Fixed • Total • All of the above	A

8	Working capital is calculated as _____ • Core current assets less core current liabilities • Current assets less current liabilities • Core current assets less current liabilities • Liquid assets less current liabilities	**B**
9	working capital refers to the difference between current assets and current liabilities. • Zero • Net • Gross • Distinctive	**B**
10	A _____ net working capital will arise when current assets exceed current liabilities. • Summative • Negative • Excessive • Positive	**D**
11	A _____ net working capital will arise when current assets exceed current liabilities. • Summative • Negative • Excessive • Positive	**D**
12	Contingencies are – …….. • Added to gross working capital • Deducted from gross working capital • Contingencies are not considered in financial management; it is considered in accounts only • None of the above	**A**
13	Working capital is a highly effective barometer of a company's efficiency and effectiveness. • operational and servicing • long term • operational and financial • positive and negative	**C**
14	While calculating working capital based on cash cost – • Depreciation is ignored • Non-cash items are not considered • Debtors are calculated on the basis of cost of goods sold and not on sale price • All of the above	**C**

15	A negative working capital means that -…….. • the company has no current assets at all • the company currently is unable to meet its short-term liabilities • the company has negative earnings before interest and tax • the company currently is able to meet its short-term liabilities	**B**
16	Which of the following analyzes the accounts receivable, inventory and accounts payable cycles in terms of number of days? • Operation cycle • Current asset cycle • Operating cycle • Business cycle	**C**
17	Which of the following method is not used for calculating working capital cycle? • Percentage of sales method • Regression analysis method • Operating cycle approach • Trial and error method	**D**
18	One of the important objective(s) of working capital management is/are – • To maintain the optimum levels of investment in current assets. • To reduce the levels of current liabilities. • Improve the return on capital employed. • All of the above	**D**
19	Fluctuating Working Capital is also called as — • Reserve Margin Working Capital • Temporary Working Capital • Permanent Working Capital • Variable working capital	**D**
20	A higher current assets/fixed assets ratio indicates – • Hedging Approach • Conservative Approach • Matching/hedging Approach • Aggressive Approach	**B**
21	Gross working capital refers to – • the amount utilized at the time of contingencies. • the firm's investment in current assets. • the capital which is required at the time of the commencement of business. • the working capital which is necessary on a continuous and uninterrupted basis.	**B**

22	If a firm has insufficient working capital and tries to increase sales, it can easily over-stretch the financial resources of the business. This is called – • Overrating • Over trading • Overcoming • Overtone	**B**
23	Which of the following represents the amount utilized at the time of contingencies? • Reserve Working Capital • Net working capital • Extra working capital • Fixed working capital	**A**
24	Permanent Working Capital is also known as – • Fixed working capital • Temporary working capital • Long term funds • Gross margin working capital	**A**
25	Any amount over and above the permanent level of working capital is known as working capital. • Temporary • Fluctuating • Variable • All of the above	**A**
26	…… varies inversely with profitability. • Liquidity • Risk • Gross profit • None of the above	**A**
27	…….. refers to the difference between current asset and current liabilities. • Differential working capital • Net working capital • Operation working capital • None of the above	**B**
28	It is understood that a current ratio of …….. for a manufacturing firm implies that the firm has an optimum amount of working capital. • 1 (one) • 2 (two) • 3 (three) • 2.5 (two and half)	**B**

29	Working Capital Turnover measures the relationship of Working Capital with: • Fixed Assets • Sales • Purchases • Stock	**B**
30	Working capital management is primarily concerned with the management and financing of: • Cash & inventory • Current assets & current liabilities • Current assets • Receivables and payables	**B**
31	Operating cycles period equals: • Collection period+Inventory holding period – Creditor Payment Period • Collection period-Inventory holding period + Creditor Payment Period • Creditor Payment Period-(-Inventory holding period – Collection period • Any of the above	**A**
32	Decrease in current assets means – • Increase in working capital • Decrease in inventories • Decrease in working capital • Increase in accounts payable days.	**C**
33	Which of the following is not considered while calculating accounts receivable period? • Bills receivable • Cash sales • Debtors • Credit sales	**B**
34	Which of the following assets is not a quick current asset? • Short term bills receivables • Cash • Stock • Debtors less provision for bad and doubtful debts	**C**
35	The best ratio to evaluate short-term liquidity is: • Working capital turnover ratio • Current ratio • Creditors velocity • All of the above	**B**

36	Inventory turnover ratio evaluates: • Company's ability to move inventory • Company's inventory purchasing efficiency • Both (A) & (B) • None of the above	**C**
37	Purchase of stock for cash will current ratio. • Reduce • Improve • Not change	**C**
38	Total sales of OLX Ltd. are ₹ 31,248 out of which 25% are cash sales. Closing balance of debtors are ₹ 9,468. Debtors collection period = ? Note: 1 Year — 365 days • 4.2 months • 157 days • 148 days • 4.43 month	**C**
39	KT Ltd. opening stock was ₹ 2,50,000 and closing stock was ₹ 3,75,000. Sales during the year was ₹ 13,00,000 and gross profit ratio was 25% on sales. Average accounts payable are ₹ 80,000. Creditors Turnover Ratio = ? • 13.75 • 14.33 • 13.33 • 14.44	**13.75**
40	Creditors payment period = 60 days Material consumed = ₹ 1,20,000 Material purchased in cash = ₹ 10,000 Material purchased on credit = ₹ 90,000 Creditors that will appear in balance sheet and working capital statement = ? Note: 1 Year = 360 days • ₹ 16,667 • ₹ 15,000 • ₹ 20,000 • ₹ 36,667	**B**
41	Debtors as per working capital statement = ₹ 3,00,000 , Debtors collection period = 45 days Gross profit ratio = 20% , Cash sales = ₹ 5,00,000 1 year = 365 days , Total sales = ? (A) ₹ 24,00,000 (B) ₹ 19,00,000 (C) ₹ 29,00,000 (D) ₹ 25,00,000	**C**

42	Operating cost is ₹ 18,90,000. , Current assets Eire ₹ 5,20,000 Current liabilities are ₹ 1,00,000, Operating cycle days = ? (Assume a 360 days year.) , • 80 days • 99 days • 19 days • 70 days	**A**
43	Debtors velocity = 3 months , Sales = ₹ 25,00,000 Bills receivable & Bills payable were ₹ 60,000 and ₹ 36,667 respectively. Sundry debtors = ? • ₹ 6,25,000 • ₹ 5,25,000 • ₹ 5,65,000 • ₹ 6,65,000	**C**
44	Other things remaining constant, if the debtors increases as compared to last year it means – • Company has poor credit policy • Company has positive working capital • Company has negative working capital • Company has no working capital	**B**
45	Which of the following will be considered while calculating working capital? (1) Short Term Advances (2) Stock of WIP (3) Short Term Investments (4) Perpetual inventory policy Select the correct answer from the options given below. • (2) & (3) • (1) & (3) • (1), (2) & (3) • All of the above except (4)	**D**
46	Contingencies are – …….. • Added to gross working capital • Deducted from gross working capital • Contingencies are not considered in financial management; it is considered in accounts only • None of the above	**A**
47	For reducing and controlling working capital requirement which of the following step is required to be taken – • Increase in manufacturing cycle • Increase of credit period allowed by creditors to the extent that do not affect the production. • Increase in credit period given to customers • All of the above	**B**

48	Which of the following is correct formula to calculate WIP Conversion Period? (A) $\frac{\text{Annual Cost of Production}}{\text{Average Stock of WIP}} \times 365 \text{ days}$ (B) $\frac{\text{Average Stock of WIP}}{\text{Annual Cost of Sales}} \times 365 \text{ days}$ (C) $\frac{\text{Average Stock of WIP}}{\text{Annual Cost of Production}} \times 365 \text{ days}$ (D) $\frac{\text{Annual Cost of Sales}}{\text{Average Stock of WIP}} \times 365 \text{ days}$	**C**
49	Initial Working Capital -…… • supplies the funds necessary to meet the current working expenses. • is used to raise the volume of production by improvement or extension of machinery. • is required at the time of the commencement of business • represents the amount utilized at the time of contingencies.	**C**
50	Regular Working Capital – • supplies the funds necessary to meet the current working expenses ie. for purchasing raw material and supplies, payment of wages, salaries and other sundry expenses. • refers to the firm's investment in current assets. • is amount over and above the permanent level of working capital. • refers to the difference between current asset and Current liabilities.	**A**

UNIT -IV- CAPITAL STRUCTURE

Q. No	Questions	Answer
1	Cost of capital does not mean: • Cut off rate decided by management • Rate of interest • Expectations of investors for dividend • Money paid to SEBI for permission to acquire capital	A
2.	Which of the following statements are false? • Retained earnings do not involve any cost. • Composite cost refers to sum of cost of equity and cost of debt. • According to traditional approach, cost of capital is affected by debt-equity mix. • All of the above	D
3	What are the considerations in designing capital structure of a corporate? • Trading on Equity • Cost of capital • Profitability • All of the above	D
4	Which one of the following is not used to estimate cost of equity capital? • External yield criterion • Dividend plus growth rate • Equity capitalisation approach • Capital assets pricing model	A
5	Which of the following is correct for RADR? • Accept a project if NPV at RADR is negative • Accept a project if IRR is more than RADR • RADR is overall cost of capital plus risk-premium • All of the above.	C
6	Cost of Capital refers to: • Flotation Cost • Dividend • Minimum Required Rate of Return • None of the above.	C

7	Cost of capital is highest in case of: • Debt • Equity • Loans • Bonds	**B**
8	Which of the following has an Implicit Cost of Capital? • Equity Share Capital • Preference Share Capital • Debentures • Retained earnings.	**D**
9	Which of the following is false? • Retained earnings are cost free • External Equity is cheaper than Internal Equity • Retained Earnings are costlier than External Equity. • All of the above	**D**
10	Minimum Rate of Return that a firm must earn in order to satisfy its investors, is also known as: • Average Return on Investment • Weighted Average Cost of Capital • Net Profit Ratio • Average Cost of borrowing.	**B**
11	Cost of capital is lowest in case of: • Debt • Equity • Loans • Bonds	**A**
12	Cost of capital is lowest in case of debt is due to: • Low rate of interest • Time value of money • Tax-deductibility of interest • All of the above	**C**
13	. In order to find out cost of equity capital under CAPM, which of the following is not required: • Beta of the stock • Market Rate of Return • Market Price of Equity Share • Risk-free Rate of Interest.	**C**

14	Interest on government bonds is also known as: • Beta of the stock • Market Rate of Return • Market Price of Equity Share • Risk-free Rate of Interest.	**D**
15	Cost of issue of new shares is known as: • Cost of Equity • Cost of debt • Flotation Cost • WACC	**C**
16	Which of the following method is not used for Calculation of Cost of Equity? • Dividend yield approach • CAPM • Rate of Pref. Dividend plus Risk • Price-Earnings Ratio	**C**
17	Cost of Equity Share Capital is more than cost of debt because: • Equity shares are highly liquid. • Equity shares have higher risk than debt, • Market price of equity is highly volatile • Face value of equity is less than debentures	**B**
18	Key advantages of financing through debentures and bonds are: • It reduces tax liability • It reduces WACC • It does not dilute control of owners • All of the above.	**D**
19	The cost of equity share or debt is known as _____. • The specific cost of capital • The related cost of capital • The burden on the shareholder • None of the above	**A**
20	Which of the following methods involves computing the cost of capital by dividing the dividend by market price/net proceeds per share? • Adjusted price method • Price earning method • Dividend yield method • Adjusted dividend method	**C**

21	In weighted average cost of capital, an organisation can affect its cost of capital through _____. • The policy of investment • The policy of capital structure • The policy of dividends • All of the above	**D**
22	_____ is the rate of return for the most viable investment opportunity for a company that they will forgo by selecting any other project. • Implicit cost • Specific cost • Explicit cost • None of the above	**A**
23	What is Marginal Cost? • It is the cost of raising an additional unit of capital • It is the additional cost of capital when the company decides to raise finance for its operations • It is the weighted average cost of raising finance • All of the above	**D**
24	Which of the following statements are true? • When the dividends, earnings and the price of an equity share are growing at the same rate, the dividend growth method can compute the cost of equity capital • The risk premium for a stock is arrived at by adding the risk-free rate to the market rate of return • Both a and b are false • Both a and b are true	**D**
25	The premium that is considered to be the difference between the current yield on treasury bonds and the expected return on common stock is _____. • Current risk premium • Past risk premium • Expected premium • None of the above	**A**
26	Which among the following figures is not relevant while calculating the cost of the redeemable preference shares? • Earnings per share • Flotation cost • Discount • None of the above	**A**

27	Which of the following factors affecting the cost of capital can be controlled by the firm? • Tax rates • Dividend policy • Level of interest rates • All of the above	**B**
28	Which of the following is an uncontrollable factor that affects the cost of capital for a firm? • Capital structure policy • Debt service charges • Investment policy • None of the above	**D**
29	_____ is the cost that is used to raise the common equity of a firm by reinvestment of the internal earnings. • Cost of reserve assets • Cost of stocks • Cost of mortgage • Cost of common equity	**D**
30	Which of the following factors affects the determination of the cost of capital for a firm? • Operating and financing decisions • General economic factors • Market conditions • All of the above	**D**
31	The cost of capital for a firm _____. • Is the return required on the total assets of a firm • Refers to the internal rate of return • Varies inversely with the overall cost of debt • None of the above	**a**
32	The cost of equity share capital is greater than the cost of debt because _____. • Equity shares carry a higher risk than debts • The face value of equity shares is lower than the face values of debentures in most cases • Equity shares do not provide a fixed dividend rate • Equity shares are not easily saleable	**A**
33	The cost of preference share capital is calculated by _____. • Dividing the price per preference share by the fixed dividend per share • Dividing the book value per preference share by the fixed dividend per share • Dividing the price per preference share by the fixed dividend per share and then adding the growth rate	**A**

	• Dividing the price per preference share by the fixed dividend per share and then adding the risk premium	
34	Cost of equity share or debt is called ___ • Related cost of capital • Easy to calculate the cost of capital • Specific cost of capital • Burden on the shareholder	**C**
35	In which of the cost of the following method of equity capital is computed by dividing the dividend by market price per share or net proceeds per share? • Price Earning Method • Adjusted Price Method • Adjusted Dividend Method • Dividend Yield Method	**D**
36	In weighted average cost of capital, a company can affect its capital cost through____ 1. Policy of capital structure 2. Policy of dividends 3. Policy of investment, Select the correct answer from the options given below: • 1 only • 2 & 3 • 1 & 3 • All 1, 2 & 3	**D**
37	Which of the following is the correct formula to calculate the cost of equity under the dividend yield method? (A) $K_e = \frac{D}{P_0}$ (B) $K_e = R_f + \beta (R_m - R_f)$ (C) $K_e = \frac{D_1}{NP} + g$ (D) $K_e = \frac{EPS}{P_o}$	**A**
38	____ is the rate of return associated with the best investment opportunity for the firm and its shareholders that will be forgone if the projects presently under consideration by the firm were accepted. • Explicit Cost • Future Cost • Implicit Cost	**C**

	• Specific Cost	
38	Cost of capital is equal to the required return rate on equity in case if investors are only___ • Valuation Manager • Common Stockholders • Asset Seller • Equity Dealer	**B**
39	Which of the following model/ method makes use of Beta (β) in the calculation of the cost of equity? • Risk-Adjusted Discount Model • Capital Assets Pricing Method • MM Model • Price Earning Method	**B**
40	Marginal cost____ • is the weighted average cost of new finance raised by the company. • is the additional cost of capital when the company goes for further raising of finance. • is the cost of raising an additional rupee of capital. • All of the above	**D**
41	The bond risk premium is added into bond yield to calculate____ • Cost of option • Cost of common stock • Cost of preferred stock • Cost of working capital	**B**
42	The cost of equity share or debt is called the specific cost of capital. When specific costs are combined, then we arrive at____ • Maximum rate of return • Internal rate of return • Overall cost of capital • Accounting rate of return	**C**
43	Where earnings, dividends, and equity share price all grow at the same rate, the cost of equity capital may be computed by the dividend growth method. Statement II: When the risk-free rate is added to the market rate of the return risk premium for the stock is arrived. Select the correct answer from the options given below: • Statement I is false but Statement II is true • Both Statement I and Statement II are false • Statement II is false but Statement I is true • Both Statement I and Statement II are true	**C**

44	Interest rates, tax rates, and market risk premium Eire factors which – • Industry cannot control • Industry can control • Firm must control • Firm cannot control	**D**
45	Assertion (A): The cost of share capital would be based upon the expected rate of earnings of a company. Reason (R): Each investor expects a certain amount of earnings, whether distributed or not from the company in whose shares he invests. Select the correct answer from the options given below: • A is true but R is false • A is false but R is true • A and R both are true but R is not the correct explanation of A • A and R both are true and R is the correct explanation of A	**D**
46	If we deduct 'risk-free return' from 'market return' and multiply it with 'beta factor' and again add 'risk-free return', the resultant figure will be – • Nil • Risk premium • Cost of equity • WACC of the firm	**C**
47	For each component of capital, a required rate of return is considered as: • Component cost • Evaluating cost • Asset cost • Asset depreciation value	**A**
48	____ is the rate that the firm pays to procure financing. • Average Cost of Capital • Combine Cost • Economic Cost • Explicit Cost	**D**
49	Which of the following method of cost of equity is similar to the dividend price approach? • Discounted cash flow (DCF) method • Capital asset pricing model • Price earning method • After-tax equity method	**C**

50	The preferred dividend is divided by preferred stock price multiply by (1 – floatation cost) is used to calculate – • Transaction cost of preferred stock • Financing of preferred stock • Weighted cost of capital • The Component cost of preferred stock	**D**

UNIT -V – CAPITAL BUDGETING

Q. No	Question	Answer
1	Capital budgeting is also known as: • Investment decisions making • Planning capital expenditure • Both of the above • None of the above.	C
2	Capital budgeting decisions are of: • Long term nature • Short term nature • Both of the above • None of the above.	A
3	Which of the following statement is not true for capital budgeting? • Capital budgeting decisions are irreversible in nature. • Capital budgeting decisions affect the future stability of the firm. • Business expansion decision in a capital expenditure decisions. • Sunk cost is a relevant cost in capital budgeting	D
4	Which of the following statements are false? • Cash flows and accounting profit are same. • Cash flows are profit before depreciation but after tax. • Net Present value method is based on cash flows. • Average rate of return method is based on cash flows	D
5	Which of the following is not a capital budgeting decision? • Expansion Programme • Acquisition of long term assets • Replacement of an existing Asset • Inventory control.	D
6	Which one of the following methods of capital budgeting is based on cash flows? • Payback period • NPV • Profitability index • All of the above	D

7	Capital Budgeting Decisions are based on: • Incremental Cash Flows • Incremental Profit • Incremental Assets • Decremental Assets.	**A**
8	Which of the following is not a relevant cost in Capital Budgeting? • Sunk Cost • Opportunity Cost • Allocated Overheads • Both (a) and (c) above.	**D**
9	Which of the following is not followed in capital budgeting? • Cash flows Principle • Interest Exclusion Principle • Accrual Principle • Post-tax Principle.	**C**
10	Which of the following is not true for capital budgeting? • Sunk costs are ignored • Opportunity costs are excluded • Incremental cash flows are considered • Relevant cash flows are considered.	**B**
11	Which of the following is not used in Capital Budgeting? • Payback period • NPV • Net Assets Method • Profitability Index	**A**
12	Which of the following is not incorporated in Capital Budgeting? • Tax-Effect • Time Value of Money • Required Rate of Return • Rate of Cash Discount.	**D**
13	Which of the following is true for a capital budgeting decision? • Payback period method measures true profitability. • Internal rate of return method is also known as time adjusted rate of return. • Capital budgeting and capital rationing are same. • Rate of return method takes into account the time value of money	**B**

14	4. Which of the following method takes in account the time value of money? • Payback period method • Accounting rate of return method • Net present value method • All of the above.	**C**
15	Which of the following method of capital budgeting does not take into account the profit of the entire life of the project? • Payback period method • Accounting rate of return method • Net present value method • Profitability index	**A**
16	Capital Budgeting is a part of: • Investment Decision • Working Capital Management • Marketing Management • Capital Structure.	**A**
17	A sound method of capital budgeting is based on: • Accounting profit • Cash flows • All of the above • None of the above	**B**
18	Approximately, IRR is inverse of: • Payback period • NPV • Adjusted Accounting Rate of Return • None of the above	**C**
19	If NPV is positive, the IRR will be – • Positive • K = K • K < R • None of these	**C**
20	The rate of discount at which NPV of a project becomes zero is also known as : • Average Rate of Return • Internal Rate of Return • Alternative Rate of Return • None of the above	**B**

21	Which of the following is not true about Capital Budgeting? • Capital Budgeting decisions have an influence on the future stability of an organisation • Capital Budgeting decisions include investments to expand the business • Capital Budgeting decisions are of an irreversible nature • Sunk cost is a part of Capital Budgeting	**D**
22	Why is evaluating Capital Budgeting decisions based on cash flows? • Cash is more important for an organisation than profits • Cash flows are much easier to calculate compared to profits • Both a and b are incorrect • Both a and b are correct	**C**
23	Which of the following would be the result of including flotation costs in the analysis of a project? • It will increase the initial outflow of cash for the project • It will increase the rate of return for the project • It will increase the Net Present Value (NPV) of the project • It will have zero effect on the current value of the project	**A**
24	What should be the criteria of selection when choosing among mutually exclusive projects? • Selecting a project with a lower cost of capital • Selecting a project with the quickest payback • Selecting a project with the longest payback • Selecting a project with the highest net present value	**B**
25	Which of the following is true for a project with a shorter payback period? • The project will have more Net Present Value • The project will have less Net Present Value • The project carries a greater amount of risk • The project carries a lesser amount of risk	**D**
26	Which of the following is the term that describes the amount of time taken for a capital budgeting project to recover its initial investment? • Investment period • Redemption period • Payback period • Maturity period	**C**
27	Which of the following can be a criterion for the acceptance of a project? • The Profitability Index should be greater than unity • The Internal Rate of Return should be greater than the cost of capital • The Net Present Value should be greater than zero	**D**

	• All of the above	
28	Which of the following is true for a project with a shorter payback period? • The project will have a lesser risk • The project will have less Net Present Value • The project will have more Net Present Value • The project will have a greater risk	**A**
29	Capital Budgeting decisions are evaluated using the _____ and _____ is used for this purpose. • Weighted average, cost of capital • Weighted average, component cost • Unweighted average, cost of capital • None of the above	**A**
30	What is the main difference between accounting profit and economic profit? • Economic profit is based on cash flows, while accounting profit is based on specific rules for accountancy • Accounting profit includes the last accounting period, while economic profit includes the entire life of a firm's existence • Accounting profit has a small charge for debt, but economic profit has a small charge for the providers of capital • All of the above	**D**
31	Which of the following is a disadvantage of using the payback period? • It does not take into account the cost of capital and timing of return • When compared to the accounting rate of return method, it is more difficult to calculate and understand • It does not take the initial investment into account • All of the above	**A**
32	What is the main reason behind the specific required rates of return for different projects? • It does not take into account the cost of capital and timing of return • If a firm is divided then the units will also have a separate rate of return • Both a and b are correct • None of the above	**D**

33	Which of the following decisions require the use of a decision-tree approach? • It is used for projects with independent cash flows • It is used for making a decision to either accept or reject a proposal • It is used for sequential decisions • None of the above	**A**
34	Which of the following is true for an investment proposal with the most significant relative risk? • It will have the lowest opportunity loss • It will have the highest expected net present value • It will have the highest standard deviation of the net present value • It will have the highest coefficient of variation of the net present value	**D**
35	Which of the following would be the best example of a capital budgeting decision? • Purchasing new machinery to replace an existing one • Transferring money to your creditor's account • Payment of electricity bill for your factory • None of the above	**A**
36	Which of the following decisions affects the size of assets, the profitability and competitiveness of a firm? • Dividend decision • Working capital decision • Capital Budgeting decision • None of the above	**C**
37	Which of the following is not incorporated within the capital budgeting decision for a company? • The rate of cash discount • Time value of money • The required rate of return • None of the above	**A**
38	Which of the following principles is not considered within capital budgeting for a company? • Post-tax principle • Accrual principle • Cash flows principle • None of the above	**B**

39	Which of the following is not true for Capital Budgeting for a business? • The timing of cash flows is relevant • The existing investment within a project is not considered as the sunk cost • The cost of capital is equal to the minimum required rate of return • The capital budgeting is only related to the asset replacement decisions	**B**
40	The investment decision analysis encompasses the risk-return analysis of which of the following? • Long term investment proposals • Short term investment proposals • Both of these • None of these	**C**
41	The main components of capital budgeting are: • Capital expenditure • Budgeting • Capital expenditure & Budgeting • None of these	**C**
42	The investment decisions which are concerned with the allocation of funds of an entity to the long term investment proposals are known as: • Capital investment • Capital budgeting • Both of these • None of these	**C**
43	The decisions which are concerned with allocation of funds to the short term investment proposals are known as: • Capital investment • Working capital decisions • Capital budgeting • None of these	**B**
44	The art of making plans in quantitative manner to ensure profitability and growth is known as: • Budgeting • Discounting • Compounding • None of these	**A**

45	Financial managers consider capital budgeting as a very important function of finance due to: • Large Investment • Long term Effect on Profitability • Long Term Commitment of Funds • All of these	**D**
46	The capital expenditure decisions encompass the decisions relating to: • Independent investment proposals • Mutually exclusive investment proposals • Contingent investment proposals • All of these	**D**
47	The capital budgeting decision generally involves – investment of funds. • Meager • Huge • Small • No	**B**
48	The examples of capital expenditure is : • Purchase of fixed assets • Replacement of fixed assets • Alteration to the fixed assets • All of these	**D**
49	The Nature of capital expenditure decisions may be • Reversible • Routine • Irreversible • None of these	**C**
50	The Nature of capital expenditure decisions may be • Reversible • Routine • Irreversible • None of these	**A**

UNIT -V – CAPITAL BUDGETING