

**BACHELOR OF ACCOUNTING AND FINANCE**

**FYBAF**

**SEMESTER I (ATKT)**

**FINANCIAL MANAGEMENT I**

**SAMPLE QUESTIONS**

- 1) Which of the following is related to control function of financial manager
  - a) Interaction with bankers for arranging a short term loan
  - b) Comparing the costs and benefits of different sources of finance
  - c) Analysis and reporting of variance between targeted costs and actual costs incurred
  - d) Assessing the cost and benefits of a project under consideration
- 2) Financial objective of firm is
  - a) To increase return on investment
  - b) To increase efficiency of organisation
  - c) To increase loyalty of employees
  - d) To increase wealth of employees
- 3) The objective of financial management is to increase the wealth of shareholders means to
  - a) Increase physical assets
  - b) Increase market value of shares
  - c) Increase current assets
  - d) Increase the cash balance of company
- 4) Liquidity and profitability are \_\_ goals
  - a) Competing
  - b) Different
  - c) Separate
  - d) Finance
- 5) Shareholder wealth in a firm is represented by
  - a) Number of people employed in firm
  - b) Book value of firm assets less book value of its liabilities
  - c) Amount of salary paid to its employees
  - d) Market price per share of firm common stock
- 6) Wealth maximization means
  - a) Maximising net worth
  - b) NPV
  - c) IRR
  - d) Profit
- 7) The job of finance manager is confined to
  - a) Raising funds
  - b) Management of cash
  - c) Raising of funds and their utilization
  - d) Only proper utilization of funds
- 8) Wealth maximisation as the goal of the firm implies enhancing the wealth of
  - a) The board of directors

- b) Firm employees
  - c) Federal government
  - d) Firm stock holders
- 9) one of the following is not a function of finance
- a) Investment
  - b) Dividend
  - c) Financing
  - d) Production
- 10) Following is not a function of finance manager
- a) Marketing
  - b) Budgeting
  - c) Forecasting
  - d) Financing
- 11) Traditional phase in evolution in finance began in
- a) 1940s
  - b) 1950s
  - c) 1970s
  - d) 1980s
- 12) Financial management is concerned with
- a) Maximisation loss
  - b) Maximisation of production
  - c) Maximisation of wealth
  - d) Maximisation of welfare
- 13) Management of all matters related to organisation finance is called as
- a) Cash inflow and outflow
  - b) Allocation of resources
  - c) Financial management
  - d) Finance
- 14) Which of the following is not an element of financial management
- a) Allocation of resources
  - b) Financial planning
  - c) Finance decision making
  - d) Corporate social responsibility
- 15) Finance deals with
- a) Acquisition of funds
  - b) Acquisition of manpower
  - c) Acquisition of market
  - d) Acquisition of sales
- 16) Finance begins where
- a) Accounting ends
  - b) Auditing ends
  - c) Economics ends
  - d) Costing ends
- 17) Which of the following is considered as the principal financial objective of the firm?

- a) Shareholder wealth maximisation
  - b) General welfare of employees
  - c) Welfare of society
  - d) Welfare of management
- 18) The objective of financial management is to
- a) Maximise the revenue
  - b) Minimises the expenses
  - c) Maximise return on investment
  - d) Minimises the risk
- 19) A successful finance manager should be
- a) Intelligent
  - b) Fool
  - c) Lazy
  - d) Dishonest
- 20) Capital budgeting is concerned with
- a) Short term investment
  - b) Middle term investment
  - c) Long term investment
  - d) Equity financing
- 21) Combined leverage can be used to measure relationship between
- a) EBIT AND EPS
  - b) PAT AND EPS
  - c) SALES AND EPS
  - d) SALES AND EBIT
- 22) Higher operating leverage is related to the use of higher
- a) Debt
  - b) Fixed cost
  - c) Equity
  - d) Variable cost
- 23) Indifference level of EBIT is one at which
- a) EPS is zero
  - b) EPS is minimum
  - c) EPS is highest
  - d) EPS is medium
- 24) Financial break even level of EBIT is one at which
- a) EPS is zero
  - b) EPS is positive
  - c) EPS is negative
  - d) EPS is infinite
- 25) Relationship between sales and operating profit is known as
- a) Operating leverage
  - b) Financial leverage
  - c) Net profit ratio
  - d) Gross profit ratio

- 26) At indifference level of EBIT different capital have
- Same EBIT
  - Same EPS
  - Same PAT
  - Same PBT
- 27) Which of the following is not a relevant factor in EPS analysis of capital structure
- Rate of interest on debt
  - Tax rate
  - Amount of preference share capital
  - Dividend paid last year
- 28) For a constant EBIT if the debt level is further increased then
- EPS will also increase
  - EPS may increase
  - EPS will decrease
  - EPS may not increase
- 29) The source of capital use to get financial leverage is
- Debenture
  - Equity capital
  - Debt capital
  - Short term loans
- 30) The limitation of operating leverage is
- Higher risk
  - Profitability
  - Liquidity
  - Cost effective
- 31) Liquidity and Profitability bear relationship
- Adverse
  - Inverse
  - Direct
  - Indirect
- 32) \_\_\_ is current value of a future amount
- Future value
  - Present value
  - Discount value
  - Premium value
- 33) High gearing will increase
- Financial risk
  - Business risk
  - Production risk
  - Credit risk
- 34) A high geared company exposes to
- Business risk
  - Financial risk
  - Inflation risk

- d) Deflation risk
- 35) Operating leverage helps in analysis of
  - a) Business risk
  - b) Financing risk
  - c) Credit risk
  - d) Production risk
- 36) 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
- 37) Combined leverage is obtained from OL and FL by their
  - a) Addition
  - b) Subtraction
  - c) Multiplication
  - d) Division
- 38) High degree of financial leverage means
  - a) High debt proportion
  - b) Lower debt proportion
  - c) Equal debt and equity
  - d) Equal equity and debt
- 39) Operating leverage is calculated as
  - a) Contribution / EBIT
  - b) EBIT / PBT
  - c) EBIT / interest
  - d) EBIT / tax
- 40) Financial leverage is zero if
  - a)  $EBIT = \text{interest}$
  - b)  $EBIT = \text{zero}$
  - c)  $EBIT = \text{fixed cost}$
  - d)  $EBIT = \text{preference dividend}$
- 41) Which of the following is the liability of a bank ?
  - a) Treasury bill
  - b) Commercial paper
  - c) Certificate of deposit
  - d) Junk bonds
- 42) In India Commercial paper are issued as per guidelines by
  - a) RBI
  - b) SEBI
  - c) Forward market commission
  - d) Stock market
- 43) Commercial papers 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
- 44) The security on which the rate of dividend is not fixed is
- a) Equity shares
  - b) Preference shares
  - c) Debentures
  - d) Public deposits
- 45) Which of the following is not applicable to commercial paper
- a) Face value
  - b) Coupon rate
  - c) Issue price
  - d) Discount price
- 46) In which of the following arrangements with the bank a company does not directly assume the risk of default by its customers ?
- a) Cash credit
  - b) Overdraft
  - c) Letter of credit
  - d) Pledge
- 47) Which of the following is not a feature of certificate of deposit?
- a) There is no lock in period for transferring it to others
  - b) It is not subject to the reserve requirement of bank
  - c) It is transferable by endorsement and delivery
  - d) The maximum maturity period is 1 year
- 48) Which of the following statements is true with regard to public deposit to a company
- a) Security is offered in case of public deposit
  - b) Public deposit will have restrictive covenants in respect dividend payments
  - c) After tax cost of public deposit will be much less than the after tax cost of bank borrowing
  - d) Procedure involved in raising public deposit is fairly complex
- 49) The type of collateral used for short term loan is
- a) Real estate
  - b) Plant and machinery
  - c) Stock of goods
  - d) Equity share capital
- 50) Public deposit can be accepted for a maximum period of
- a) 3 years
  - b) 2 years
  - c) 5 years
  - d) 10 years
- 51) The debentures, which are repayable after a certain period as per the terms of their issue, are called
- a) Convertible debentures
  - b) Redeemable debentures
  - c) Secured debentures
  - d) Unsecured debentures
- 52) The debentures, which are not repayable during the life time of the company, are called

- a) Irredeemable debentures
  - b) Redeemable debentures
  - c) Secured debentures
  - d) Unsecured debentures
- 53) The debentures, which are convertible into equity shares or preference shares at the option of the holders, after a certain period, are called
- a) Convertible debentures
  - b) Redeemable debentures
  - c) Secured debentures
  - d) Unsecured debentures
- 54) The debentures, which are not convertible into equity shares, are called
- a) Convertible debentures
  - b) Redeemable debentures
  - c) Secured debentures
  - d) Non convertible debentures
- 55) \_\_\_ bonds are issued at discount
- a) Zero interest bonds
  - b) Secured bonds
  - c) Unsecured bonds
  - d) Convertible bonds
- 56) \_\_\_ refers to accumulation of profits by a company for finance purpose
- a) Reserves
  - b) Retained earnings
  - c) General reserve
  - d) Revenue reserve
- 57) which of the following facility can be misused by management
- a) Retained earnings
  - b) Junk bonds
  - c) Indexed bonds
  - d) Trade credit
- 58) Who among following is like a guide a friend to business
- a) Commercial bank
  - b) Reserve bank
  - c) Trade creditor
  - d) Agent
- 59) \_\_\_ are high yield security bonds widely used in takeovers
- a) Junk bonds
  - b) Indexed bonds
  - c) Zero interest bonds
  - d) Discount bonds
- 60) \_\_\_ is an instrument which retains security fixed income and safeguards against inflation
- a) Junk bonds
  - b) Indexed bonds
  - c) Zero interest bonds

- d) Discount bonds
- 61) Which of the following is not a spontaneous source of short term funds
- a) Trade credit
  - b) Accrued expense
  - c) Provision of dividend
  - d) Interim dividend
- 62) Concept of maximum permissible bank finance was introduced by
- a) Kannan committee
  - b) Chore committee
  - c) Nayak committee
  - d) Tandon committee
- 63) Cash discount terms offered by trade creditors never be accepted because
- a) Benefit is very small
  - b) Cost is very high
  - c) No sense to pay earlier
  - d) Cost is very low
- 64) Cost of capital refers to
- a) Flotation cost
  - b) Dividend
  - c) Required rate of return
  - d) Not required rate of return
- 65) 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
- 66) \_\_\_ are preferred shares that can be exchanged for common shares at a fixed rate
- a) Convertible preference shares
  - b) Non convertible preference shares
  - c) Redeemable preference shares
  - d) Irredeemable preference shares
- 67) \_\_\_ are preferred shares that the issuing company can choose to buy back at a fixed price in the future
- a) Callable preference shares
  - b) Non callable preference shares
  - c) Convertible preference shares
  - d) Redeemable preference shares
- 68) The preference shares, which can be redeemed after a specified period or at the discretion of the company
- a) Convertible preference shares
  - b) Non convertible preference shares
  - c) Redeemable preference shares
  - d) Irredeemable preference shares
- 69) The debentures, which are secured fully or partly by a charge over the assets of the company are called

- a) Convertible debentures
- b) Redeemable debentures
- c) Secured debentures
- d) Unsecured debentures

70) The debentures, which are not secured fully or partly by a charge over the assets of the company are called

- a) Convertible debentures
- b) Redeemable debentures
- c) Secured debentures
- d) Unsecured debentures

71) You deposit 2,000 today in bank which pays 12% interest compounded annually how much will the deposit grow 8 years

- a) Rs 4952
- b) Rs 4950
- c) Rs 4955
- d) Rs 4852

72) You deposit 2,000 today in bank which pays 14% interest compounded annually how much will the deposit grow 7 years

- a) Rs 5,005
- b) Rs 5,000
- c) Rs 5,100
- d) Rs 5,002

73) You deposit 5,000 today in bank which pays 14% interest compounded annually how much will the deposit grow 7 years

- a) Rs 12,511
- b) Rs 12,510
- c) Rs 12,500
- d) Rs 12,513

74) What is the present value of Rs 2,00,000 receivable after 8 years if the interest rate is 10%

- a) Rs 93,309
- b) Rs 93,301
- c) Rs 93,305
- d) Rs 94,301

75) What is the present value of Rs 3,00,000 receivable after 8 years if the interest rate is 10%

- a) Rs 1,39,952
- b) Rs 139,950
- c) Rs 139,958
- d) Rs 139,999

76) What is the present value of Rs 30,00,000 receivable after 2 years if the interest rate is 10%

- a) Rs 24,78,000
- b) Rs 25,00,000
- c) Rs 24,58,000
- d) Rs 24,75,000

77) Contribution Rs 20,000 and operating profit before interest and tax is Rs 8,000. Calculate operating leverage

- a) 2.5
- b) 1.5
- c) 2.0
- d) 3.5

78) Contribution Rs 2,00,000 and operating profit before interest and tax is Rs ,150,000. Calculate operating leverage

- a) 1.33
- b) 1.23
- c) 1.30
- d) 1.45

79) Contribution Rs 2,00,000 and operating profit before interest and tax is Rs 1.20,000. Calculate operating leverage

- a) 1.66
- b) 1.65
- c) 1.30
- d) 1.47

80) Profit before interest and tax Rs 20,00,000 and profit before tax 11,00,000. Calculate financial leverage

- a) 1.82
- b) 1.20
- c) 1.50
- d) 1.72

81) Profit before interest and tax Rs 27,00,000 and profit before tax 22,95,000. Calculate financial leverage

- a) 1.18
- b) 1.19
- c) 1.13
- d) 1.12

82) Profit before interest and tax Rs 24,00,000 and profit before tax 12,95,000. Calculate financial leverage

- a) 1.85
- b) 1.50
- c) 1.80
- d) 1.45

83) Contribution Rs 33,00,000 and profit before tax Rs 22,95,000. Calculate combined leverage

- a) 1.43
- b) 1.53
- c) 1.32
- d) 1.33

84) R Ltd issued 14% debentures of Rs 100 each. Tax rate is 40%. Calculate cost of debt if issue is at par with 5% floatation cost

- a) 8.84%

- b) 8.8%
- c) 7.84%
- d) 6.84%

85) Contribution Rs 3,00,000 and profit before tax Rs 1,95,000. Calculate combined leverage

- a) 1.53
- b) 1.32
- c) 1.54
- d) 1.43

86) A company issues 2000 debentures of Rs 100 each. Debentures are redeemable after 8 years and tax % is 30%. Calculate cost of debt if they are issued at par

- a) 8.4%
- b) 8.5%
- c) 8.1%
- d) 7.4%

87) R.P Ltd issued 100 lakhs 14% preference shares of Rs 100 each redeemable at par after 5 years. Dividend tax rate 20%. Calculate cost of preference shares if issue is at par with 10% floatation cost.

- a) 18.8%
- b) 17.8%
- c) 15.8%
- d) 14.8%

88) R.P Ltd issued 100 lakhs 14% preference shares of Rs 100 each redeemable at par after 5 years. Dividend tax rate 20%. Calculate cost of preference shares if issue is at 10% premium with 5% floatation cost.

- a) 15.55%
- b) 14.52%
- c) 12.55%
- d) 13.55%

89) If financial leverage is 1.52 and operating leverage is 1.26. What will be the value of combined leverage ?

- a) 1.91
- b) 1.81
- c) 1.52
- d) 1.26

90) If financial leverage is 1.92 and operating leverage is 1.05. What will be the value of combined leverage ?

- a) 2.01
- b) 2.10
- c) 1.01
- d) 1.03