BACHELOR OF ACCOUNTING AND FINANCE

Class T.Y.BAF

SEMESTER V

SUBJECT NAME FINANCIAL MANAGEMENT II

SAMPLE QUESTIONS

1. "Shareholder wealth" in a firm is representedby:

a) the number of people employed in thefirm.
b) the book value of the firm's assets less the book value of itsliabilities
c) the amount of salary paid to itsemployees.
d) the market price per share of the firm's commonstock.

2. The long-run objective of financial management isto:
a) maximize earnings pershare.
b) maximize the value of the firm's commonstock.
c) maximize return oninvestment.
d) maximize marketshare.

3. What are the earnings per share (EPS) for a company that earned Rs. 100,000 last year in after-tax profits, has 200,000 common shares outstanding and Rs. 1.2 million in retained earning at the yearend?

a) Rs. 100,000
b) Rs.6.00
c) Rs.0.50
d) Rs.6.50

4. The market price of a share of common stock is determinedby:
a) the board of directors of thefirm.
b) the stock exchange on which the stock islisted.
c) the president of the company.
d) individuals buying and selling the stock.

5. The focal point of financial management in a firmis:
a) the number and types of products or services provided by thefirm.
b) the minimization of the amount of taxes paid by thefirm.
c) the creation of value forshareholders.
d) the dollars profits earned by thefirm.

6. Inthe_____, the future value of all cash inflow at the end of time horizon at a particular rate of interest iscalculated.

a) Risk-freerate
b) Compoundingtechnique
c) Discountingtechnique
d) Risk Premium

7. _____is the price at which the bond is traded in the stockexchange.
a) Redemptionvalue
b) Facevalue
c) Marketvalue
d) Maturityvalue

8. In_____approach, the capital structure decision is relevant to the valuation of thefirm.
a) Netincome
b) Net operatingincome
c) Traditional
d) Miller andModigliani

9. When_____is greater than zero the project should beaccepted.
a) Internal rate ofreturn
b) Profitabilityindex
c) Net presentvalue
d) Modified internal rate ofreturn

10. _____is defined as the length of time required to recover the initial cashout-lay.
a) Payback-period
b) Inventory conversionperiod
c) Discountedpayback-period
d) Budgetperiod

11. _____is the length of time between the firm's actual cash expenditure and its own cashreceipt.

a) Net operatingcycle
b) Cash conversioncycle
c) Working capitalcycle
d) Gross operatingcycle

12. _____refers to a firm holding some cash to meet its routine expenses that are incurred in the ordinary course ofbusiness.

a) Speculativemotive
b) Transactionmotive
c) Precautionarymotive
d) Compensatingmotive

13. Amounts due from customers when goods are sold on creditarecalled_____.

a) Tradebalance
b) Tradedebits
c) Tradediscount
d) Tradeoff

14. _____and_____are the two versions of goals of the financial management of thefirm.

a) Profit maximisation, Wealthmaximization
b) Production maximisation, Salesmaximisation
c) Sales maximisation, Profitmaximization
d) Value maximisation, Wealth maximisation

15. Consider the below mentioned statements: 1. A company is considered to be over- capitalised when its actual capitalisation is lower than the proper capitalisation as warranted by the earning capacity 2. Both over-capitalisation and under-capitalisation are detrimental to the interests of the society. State True orFalse:

a) 1-True,2-True
b) 1-False,2-True
c) 1-False,2-False
d) 1-True,2-False

16. _____and_____carry a fixed rate of interest and are to be paid off irrespective of the firm'srevenues.

a) Debentures,Dividends
b) Debentures,Bonds
c) Dividends, Bonds
d) Dividends, Treasurynotes

17. Consider the below mentioned statements: 1. A debt-equity ratio of 2:1 indicates that for every 1 unit of equity, the company can raise 2 units of debt. 2. The cost of floating a debt is greater than the cost

of floating an equity issue. State True orFalse:

a) 1-True,2-True
b) 1-False,2-True
c) 1-False,2-False
d) 1-True,2-False

18. XYZ is an oil based business company, which does not have adequate working capital. It fails to meet its current obligation, which leads to bankruptcy. Identify the type of decision involved to prevent risk ofbankruptcy.

a) Investmentdecision
b) Dividenddecision
c) Liquiditydecision
d) Financedecision

19. The rate of interest offered by the fixed deposit scheme of a bank for 365 days and above is 12%. What will be the status of Rs. 20000, after two years if it is invested at this point oftime?

a) Rs.28032
b) Rs.24048
c) Rs.22056
d) Rs.25088

20. Which of the following wouldNOT improve the currentratio?

a) Borrow short term to finance additional fixedassets.
b) Issue long-term debt to buyinventory.
c) Sell common stock to reduce current liabilities.
d) Sell fixed assets to reduce accountspayable.

21. The gross profit margin is unchanged, but the net profit margin declined over the same period. This could have happenedif

a) cost of goods sold increased relative tosales.
b) sales increased relative toexpenses.
c) Govt. increased the taxrate.
d) dividends weredecreased.

22. Kanji Company had sales last year of Rs. 265 million, including cash sales of Rs. 25 million. If its average collection period was 36 days, its ending accountsreceivable
balance is closest to . (Assume a 365-day year.)

a) Rs. 26.1million
b) Rs. 23.7million
c) Rs. 7.4 million
d) Rs. 18.7 million

23. A company can improve (lower) its debt-to-total assets ratio by doing which of the following?

a) Borrowmore.
b) Shift short-term to long-termdebt.
c) Shift long-term to short-termdebt.
d) Sell commonstock.

24. Which of the following statements (in general) iscorrect?
a) A low receivables turnover isdesirable.
b) The lower the total debt-to-equity ratio, the lower the financial risk for afirm.
c) An increase in net profit margin with no change in sales or assets means a poorROI.
d) The higher the tax rate for a firm, the lower the interest coverageratio.

25. A firm's operating cycle is equal to its inventory turnover in days(ITD)
a) plus its receivable turnover in days(RTD).
b) minus its RTD.
c) plus its RTD minus its payable turnover in days(PTD).
d) minus its RTD minus itsPTD.

26. If the following are balance sheet changes:

Rs. 5,005 decrease in accountsreceivable

Rs. 7,000 decrease incash

Rs. 12,012 decrease in notespayable

Rs. 10,001 increase in accountspayable

a "use" of funds would be the:

a) Rs. 7,000 decrease incash.
b) Rs. 5,005 decrease in accountsreceivable.
c) Rs. 10,001 increase in accountspayable.
d) Rs. 12,012 decrease in notespayable.

27. Which of the following would be included in a cash estimation/budget?
a) depreciationcharges.
b) dividends.
c) goodwill.
d) patentamortization.

28. Which of the following is NOT a cash outflow for thefirm?
a) depreciation.
b) dividends.
c) interestpayments.
d) taxes.

29. The estimated benefits from a project are expressed as cash flows instead of income flowsbecause:
a) it is simpler to calculate cash flows than incomeflows.
b) it is cash, not accounting income, that is central to the firm's capital budgetingdecision.

c) this is required by the Internal RevenueService.
d) this is required by the Securities and ExchangeCommission.

30. Which of the following statements iscorrect?
a) If the NPV of a project is greater than 0, its PI will equal0.
b) If the IRR of a project is 0%, its NPV, using a discount rate, k, greater than 0, will be0.
c) If the PI of a project is less than 1, its NPV should be less than0.
d) If the IRR of a project is greater than the discount rate, k, its PI will be less than 1 and its NPV will be greater than 0.

31. Aproject's profitabilityindexisequaltotheratiooftheof a project's future cash flows totheproject's_____.
a) present value; initial cashoutlay
b) net present value; initial cashoutlay
c) present value; depreciablebasis
d) net present value; depreciablebasis

32. Two mutually exclusive investment proposals have "scale differences" (i.e., the cost of the projects differ). Ranking these projects on the basis of IRR, NPV, and PI methods
a) willnever
b) willalways give contradictory results
c) may
d) will generally

33. Preferred shareholders' claims on assets and income of a firm comethose ofcreditors those of common shareholders
a) before; and also before
b) after; butbefore
c) after; and alsoafter
d) equal to; and equalto

34. Youareconsideringtwomutuallyexclusiveinvestmentproposals,projectAandproject B. B's expected value of net present value is $1,000 less than that for A and A has less dispersion. On the basis of risk and return, you would say that
a) Project A dominates projectB.
b) Project B dominates projectA.
c) Project A is more risky and should offer greater expectedvalue.
d) Each project is high on one variable, so the two are basicallyequal.

35. To increase a given present value, the discount rate should beadjusted
a) upward.
b) downward.
c) Nochange.
d) constant

36. In finance, "working capital" means the same thingas
a) totalassets.
b) fixedassets.

c) currentassets.
d) current assets minus currentliabilities.

37. Which of the following would be consistent with a more aggressive approachto financing workingcapital?
a) Financing short-term needs with short-termfunds.
b) Financing permanent inventory buildup with long-termdebt.
c) Financing seasonal needs with short-termfunds.
d) Financing some long-term needs with short-termfunds.

38. Which asset-liability combination would most likely result in the firm's havingthe greatest risk of technicalinsolvency?
a) Increasing current assets while lowering current liabilities.
b) Increasing current assets while incurring more current liabilities.
c) Reducing current assets, increasing current liabilities, and reducing long-termdebt.
d) Replacing short-term debt withequity.

39. Which of the following illustrates the use of a hedging (or matching) approachto financing?
a) Short-term assets financed with long-termliabilities.
b) Permanent working capital financed with long-term liabilities.
c) Short-term assets financed withequity.
d) All assets financed with 50 percent equity, 50 percent long-term debtmixture.

40. In deciding the appropriate level of current assets for the firm, management isconfronted with
a) a trade-off between profitability andrisk.
b) a trade-off between liquidity andmarketability.
c) a trade-off between equity anddebt.
d) a trade-off between short-term versus long-termborrowing.

41. _____varies inversely withprofitability.
a) Liquidity.
b) Risk.
c) Financing.
d) Liabilities.

42. Spontaneous financing includes
a) accountsreceivable.
b) accountspayable.
c) short-termloans.
d) a line ofcredit
43. Permanent workingcapital
a) varies with seasonalneeds.
b) includes fixedassets.
c) is the amount of current assets required to meet a firm's long-term minimumneeds.
d) includes accountspayable

44. Financing a long-lived asset with short-term financing wouldbe

a) an example of "moderate risk -- moderate (potential) profitability" assetfinancing.
b) an example of "low risk -- low (potential) profitability" assetfinancing.
c) an example of "high risk -- high (potential) profitability" assetfinancing.
d) an example of the "hedging approach" tofinancing.

45. Net working capital refersto
a) total assets minus fixedassets.
b) current assets minus currentliabilities.
c) current assets minusinventories.
d) currentassets.

46. Marketable securities areprimarily
a) short-term debtinstruments.
b) short-term equitysecurities.
c) long-term debtinstruments.
d) long-term equitysecurities.

47. Which would be an appropriate investment for temporarily idle corporate cash thatwill be used to pay quarterly dividends three months fromnow?
a) A long-term AAA-rated corporate bond with a current annual yield of 9.4percent.
b) A 30-year Treasury bond with a current annual yield of 8.7percent.
c) Ninety-day commercial paper with a current annual yield of 6.2percent.
d) Common stock that has been appreciating in price 8 percent annually, on average,and paying a quarterly dividend that is the equivalent of a 5 percent annualyield.

48. Which of the following marketable securities is the obligation of a commercialbank?
a) Commercialpaper
b) Negotiable certificate of deposit
c) Repurchase agreement
d) T-bills

49. The basic requirement for a firm's marketablesecurities.
a) Safety
b) Yield
c) Marketability
d) All of theabove.

50. A firm's inventory turnover (IT) is 5 times on a cost of goods sold (COGS) of $800,000. If the IT is improved to 8 times while the COGS remains the same, a substantial amount of funds is released from or additionally invested in inventory. Infact,
a) $160,000 isreleased.
b) $100,000 is additionallyinvested.
c) $60,000 is additionallyinvested.
d) $60,000 isreleased.

51. Costs of not carrying enough inventoryinclude:
a) lostsales.
b) customerdisappointment.

c) possible workerlayoffs.
d) all ofthese.

52. Which of the following relationships hold true for safetystock?
a) the greater the risk of running out of stock, the smaller the safety ofstock.
b) the larger the opportunity cost of the funds invested in inventory, the larger thesafety stock.
c) the greater the uncertainty associated with forecasted demand, the smaller the safety stock.
d) the higher the profit margin per unit, the higher the safety stocknecessary.

53. Increasing the credit period from 30 to 60 days, in response to a similar action taken by all of our competitors, would likely resultin:

a) an increase in the average collectionperiod.
b) a decrease in bad debtlosses.
c) an increase insales.
d) higherprofits.

54. An increase in the firm's receivable turnover ratio meansthat:
a) it is collecting credit sales more quickly thanbefore.
b) cash sales havedecreased.
c) it has initiated more liberal creditterms.
d) inventories haveincreased.

55. A single, overall cost of capital is often used to evaluate projectsbecause:
a) it avoids the problem of computing the required rate of return foreach investmentproposal.
b) it is the only way to measure a firm's requiredreturn.
c) it acknowledges that most new investment projects have about the same degree ofrisk.
d) it acknowledges that most new investment projects offer about the same expectedreturn.

56. The cost of equity capital is all of the followingEXCEPT:
a) the minimum rate that a firm should earn on the equity-financed part of aninvestment.
b) a return on the equity-financed portion of an investment that, at worst, leaves the market price of the stockunchanged.
c) by far the most difficult component cost toestimate.
d) generally lower than the before-tax cost ofdebt.
57. In calculating the costs of the individual components of a firm's financing, the corporate tax rate is important to which of the following component costformulas?
a) commonstock.
b) debt.
c) preferredstock.
d) none of theabove.

58. The common stock of a company must provide a higher expected return than the debtof the same companybecause

a) there is less demand for stock than forbonds.

b) there is greater demand for stock than forbonds.
c) there is more systematic risk involved for the commonstock.
d) there is a market premium required forbonds.

59. A quick approximation of the typical firm's cost of equity may be calculatedby
a) adding a 5 percent risk premium to the firm's before-tax cost ofdebt.
b) adding a 5 percent risk premium to the firm's after-tax cost ofdebt.
c) subtracting a 5 percent risk discount from the firm's before-tax cost ofdebt.
d) subtracting a 5 percent risk discount from the firm's after-tax cost ofdebt.

60. Market values are often used in computing the weighted average cost of capitalbecause
a) this is the simplest way to do thecalculation.
b) this is consistent with the goal of maximizing shareholdervalue.
c) this is required in the U.S. by the Securities and ExchangeCommission.
d) this is a very commonmistake.

61. Rank in ascending order (i.e., 1 = lowest, while 3 = highest) the likely after-tax component costs of a Company's long-termfinancing.

a) 1 = bonds; 2 = common stock; 3 = preferredstock.
b) 1 = bonds; 2 = preferred stock; 3 = commonstock.
c) 1 = common stock; 2 = preferred stock; 3 =bonds.
d) 1 = preferred stock; 2 = common stock; 3 =bonds.

62. Lei-Feng, Inc.'s $100 par value preferred stock just paid its $10 per share annual dividend. The preferred stock has a current market price of $96 a share. Thefirm's marginal tax rate (combined federal and state) is 40 percent, and the firm plans to maintain its current capital structure relationship into the future. The component costof preferred stock to Lei-Feng, Inc. would beclosestto_____.

a) 6percent
b) 6.25percent
c) 10percent
d) 10.4percent

63. The term "capital structure" refersto:
a) long-term debt, preferred stock, and common stock equity.
b) current assets and currentliabilities.
c) total assets minusliabilities.
d) shareholders'equity.

64. A critical assumption of the net operating income (NOI) approach to valuationis:
a) that debt and equity levels remainunchanged.
b) that dividends increase at a constantrate.
c) that k_o remains constant regardless of changes inleverage.
d) that interest expense and taxes are included in thecalculation.

65. The traditional approach towards the valuation of a companyassumes:
a) that the overall capitalization rate holds constant with changes in financialleverage.
b) that there is an optimum capitalstructure.
c) that total risk is not altered by changes in the capitalstructure.
d) that markets areperfect.

66. Two firms that are virtually identical except for their capital structure are selling inthe market at different values. According toM&M
a) one will be at greater risk ofbankruptcy.
b) the firm with greater financial leverage will have the highervalue.
c) this proves that markets cannot beefficient.
d) this will not continue because arbitrage will eventually cause the firms to sell atthe samevalue.
d) $580,000

67. Reserves & Surplus are which form offinancing?
a) SecurityFinancing
b) InternalFinancing
c) LoansFinancing
d) InternationalFinancing

68. What are the different options other than cash used for distributing profits to shareholders?
a) Bonusshares
b) Stock split
c) Stockpurchase
d) All ofthese

69. In Walter model formula D stands for
a) Dividend pershare
b) DirectDividend
c) DividendEarning
d) None ofthese

70. In MM model MM standsfor...
a. M.Khan andModigiliani
b. Miller andM.Khan
c. Modigiliani andM.Khan
d. Miller andModigliani

71. The addition of all current assets investment is knownas...
a. Net WorkingCapital
b. Gross Workingcapital
c. Temporary WorkingCapital
d. Core working capital

72. When total current assets exceeds total current liabilities it refersto.

a. Gross WorkingCapital
b. Temporary WorkingCapital
c. Both a andb
d. Net WorkingCapital

73. If the weighting of equity in total capital is 1/3, that of debt is 2/3, the return on equity is 15% that of debt is 10% and the corporate tax rate is 32%, what is the Weighted Average Cost of Capital(WACC)?
a)10.533%
b) 7.533%
c) 9.533%
d) 11.350%

74. Which of the following would not be financed from workingcapital?
a) Cashfloat.
b) Accountsreceivable.
c) Creditsales.
d) A new personal computer for theoffice.

75. What is the difference between the current ratio and the quickratio?
a) The current ratio includes inventories and the quick ratio doesnot.
b) The current ratio does not include inventories and the quick ratiodoes.
c) The current ratio includes physical capital and the quick ratio doesnot.
d) The current ratio does not include physical capital and the quick ratiodoes.

76. Which of the following working capital strategies is the mostaggressive?
a) Making greater use of short term finance *and* maximizing net short termasset.
b) Making greater use of long term finance *and* minimizing net short termasset.
c) Making greater use of short term finance *and* minimizing net short termasset.
d) Making greater use of long term finance *and* maximizing net short termasset.

77. Which of the following is not a metric to use for measuring the length of the cashcycle?
a) Acid testdays.
b) Accounts receivabledays.
c) Accounts payabledays.
d) Inventorydays.

78. Which of the following is not the responsibility of financialmanagement?
a) allocation of funds to current and capitalassets
b) obtaining the best mix of financingalternatives
c) preparation of the firm's accountingstatements
d) development of an appropriate dividendpolicy

79. Which of the following are not among the daily activities of financialmanagement?
a) sale of shares andbonds

b) creditmanagement
c) inventorycontrol
d) the receipt and disbursement offunds

80. Debt Equity Ratio is 3:1,the amount of total assets Rs.20 lac,current ratio is1.5:1 and owned funds Rs.3 lac.What is the amount of currentasset?
a) Rs.5lac
b) Rs.3lac
c) Rs.12 lac
d) d) 11 lac

81. Banks generally prefer Debt Equity Ratio at :
a)1:1
b) 1:3
c) 2:1
d) 3:1

82. An asset isa-
a. Source offund
b. Use offund
c. Inflow offunds
d. Outflow of funds

83. If a company issues bonus shares the debt equity ratiowill
a) Remain unaffected
b) Will be affected
c) Will improve
d) Will not improve

84. In the balance sheet amount of total assets is Rs.10 lac, current liabilities Rs.5 lac & capital & reserves are Rs.2 lac .What is the debt equityratio?
a) a)1;1
b) 1.5:1
c) c)2:1
d) none of the above.

85. In last year the current ratio was 3:1 and quick ratio was 2:1.Presently current ratio is 3:1 but quick ratio is 1:1.This indicatescomparably
a. high liquidity
b. higherstock
c. lowerstock
d. low liquidity

86. Authorised capital of a company is Rs.5 lac, 40% of it is paid up. Loss incurred during the year is Rs.50,000. Accumulated loss carried from last year is Rs.2 lac. The company has a Tangible Net Worthof
a. Nil
b. Rs.2.50 lac

c. (-)Rs.50,000
d. Rs.1 lac.

87. Current ratio of a concern is 1,its net working capital willbe
a) Positive

b) Negative

c) Nil

d) None of theabove

88. Current ratio is 4:1.Net Working Capital is Rs.30,000.Find the amount of current Assets.
a)Rs.10,000

b)Rs.40,000

c) Rs.24,000

d) Rs.6,000

89. Current ratio is 2:5.Current liability is Rs.30000.The Net working capital is a) Rs.18,000
b) Rs.45,000

c) Rs.(-) 45,000

d) Rs.(-)18000

90. Quick assets do notinclude
a) Govt.bond

b) Book debts

c) Advance for supply of rawmaterials

d) Inventories.

91. The ideal quick ratio is
a)2:1
b)1:1
c)5:1
d) 3:1

92. The uncertainty about expected return from a marketable security attributable to change in interest rate is

a) Interest Rate Risk

b) Default Risk

c) Credit Risk

d) No Risk

93. One of the following is not an objective of cash management

a) Cash planning

b) Cash imbalance

c) Holding optimum cash

d) Investment of idle cash

94. Following is not the element of cash budgeting

a) Determination of Capital structure

b) Selection of time period

c) Operating cash flow

d) Financial cash flow

95. Transaction motive for holding cash is

a) Daily operations

b) payment of dividend

c) Purchase of assets

d) Safety

96. An aging of accounts receivable measures the

a) Ability of the firm to meet short term obligation

b) Average length of time that receivables have been outstanding

c) Percentage of sales that have been collected after a given time period

d) Amount of receivables that have been outstanding for given length of time

97. Consignments refers to

a) Supply of goods for sale

b) Supply on goods on approval

c) Supply on goods by sample

d) Cash discount

98. Other things remaining the same, which of the following will generally result as a consequence of making the credit standards more stringent?

a) More bad debt losses

b) Increase in the number of customers

c) Higher sales turnover

d) Reduction of the outstanding debtors in the balance sheet

99. Which of the following is a logical consequences of liberalizing credit standards?

a) Collection costs tend to decrease

b) Bad debt losses tend to increase

c) Sales tend to decrease

d) Cost of funds locked in receivables tend to decrease

100. Increase in accounts receivable

a) Decreases Working Capital

b) Increases Working Capital

c) Increases fixed capital

d) Decreases fixed capital