

BACHELOR OF ACCOUNTING AND FINANCE
FYBAF
SEMESTER I
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) Maximizing 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 maximization 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) Maximization 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 maximization

- b) General welfare of employees
 - c) Welfare of society
 - d) Welfare of management
- 18) The objective of financial management is to
- a) Maximize the revenue
 - b) Minimizes the expenses
 - c) Maximize return on investment
 - d) Minimizes 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

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

- 35) Operating leverage helps in analysis of
- Business risk
 - Financing risk
 - Credit risk
 - Production risk
- 36) Which of the following is studied with the help of financial leverage
- Marketing risk
 - Interest rate risk
 - Foreign exchange risk
 - Financing risk
- 37) Combined leverage is obtained from OL and FL by their
- Addition
 - Subtraction
 - Multiplication
 - Division
- 38) High degree of financial leverage means
- High debt proportion
 - Lower debt proportion
 - Equal debt and equity
 - Equal equity and debt
- 39) Operating leverage is calculated as
- Contribution / EBIT
 - EBIT / PBT
 - EBIT / interest
 - EBIT / tax
- 40) Financial leverage is zero if
- EBIT = interest
 - EBIT = zero
 - EBIT = fixed cost
 - EBIT = preference dividend
- 41) Which of the following is not a spontaneous source of short term funds
- Trade credit
 - Accrued expense
 - Provision of dividend
 - Interim dividend
- 42) Concept of maximum permissible bank finance was introduced by
- Kannan committee
 - Chore committee
 - Nayak committee
 - Tandon committee
- 43) Cash discount terms offered by trade creditors never be accepted because
- Benefit is very small
 - Cost is very high
 - No sense to pay earlier

- d) Cost is very low
- 44) Cost of capital refers to
- a) Flotation cost
 - b) Dividend
 - c) Required rate of return
 - d) Not required rate of return
- 45) 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
- 46) ___ 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
- 47) ___ 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
- 48) 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
- 49) 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
- 50) 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
- 51) Which of the following is the liability of a bank ?
- a) Treasury bill
 - b) Commercial paper
 - c) Certificate of deposit
 - d) Junk bonds

52) In India Commercial paper are issued as per guidelines by

- a) RBI
- b) SEBI
- c) Forward market commission
- d) Stock market

53) 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

54) The security on which the rate of dividend is not fixed is

- a) Equity shares
- b) Preference shares
- c) Debentures
- d) Public deposits

55) Which of the following is not applicable to commercial paper

- a) Face value
- b) Coupon rate
- c) Issue price
- d) Discount price

56) 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

57) 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

58) 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

59) 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

60) Public deposit can be accepted for a maximum period of

- a) 3 years
- b) 2 years

- c) 5 years
 - d) 10 years
- 61) 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
- 62) The debentures, which are not repayable during the lifetime of the company, are called
- a) Irredeemable debentures
 - b) Redeemable debentures
 - c) Secured debentures
 - d) Unsecured debentures
- 63) 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
- 64) The debentures, which are not convertible into equity shares, are called
- a) Convertible debentures
 - b) Redeemable debentures
 - c) Secured debentures
 - d) Non convertible debentures
- 65) ___ bonds are issued at discount
- a) Zero interest bonds
 - b) Secured bonds
 - c) Unsecured bonds
 - d) Convertible bonds
- 66) ___ refers to accumulation of profits by a company for finance purpose
- a) Reserves
 - b) Retained earnings
 - c) General reserve
 - d) Revenue reserve
- 67) which of the following facility can be misused by management
- a) Retained earnings
 - b) Junk bonds
 - c) Indexed bonds
 - d) Trade credit
- 68) Who among following is like a guide a friend to business
- a) Commercial bank
 - b) Reserve bank
 - c) Trade creditor
 - d) Agent
- 69) ___ are high yield security bonds widely used in takeovers

- a) Junk bonds
 - b) Indexed bonds
 - c) Zero interest bonds
 - d) Discount bonds
- 70) _____ 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
- 71) Profit before interest and tax Rs 25,00,000 and profit before tax 22,95,000. Calculate financial leverage
- a) 1.08
 - b) 1.09
 - c) 1.03
 - d) 1.12
- 72) Profit before interest and tax Rs 26,00,000 and profit before tax 10,95,000. Calculate financial leverage
- a) 2.45
 - b) 2.37
 - c) 2.80
 - d) 2.35
- 73) Contribution Rs 33,25,000 and profit before tax Rs 20,95,000. Calculate combined leverage
- a) 1.53
 - b) 1.53
 - c) 1.58
 - d) 1.43
- 74) R ltd issued 16% debentures of Rs 100 each. Tax rate is 50%. Calculate cost of debt if issue is at par with 5% floatation cost
- a) 8.42%
 - b) 8.8%
 - c) 8.84%
 - d) 7.43%
- 75) Contribution Rs 3,60,000 and profit before tax Rs 1,55,000. Calculate combined leverage
- a) 2.53
 - b) 2.32
 - c) 2.14
 - d) 2.43
- 76) A company issues 2000 15% debentures of Rs 100 each. Debentures are redeemable after 8 years.and tax % is 40%. Calculate cost of debt if they are issue at par
- a) 8.0%
 - b) 8.5%
 - c) 9.0%
 - d) 9.4%

77) R.P ltd issued 100 lakhs 14% preference shares of Rs 100 each redeemable at par after 5 years. Calculate cost of preference shares if issue is at par with 10% floatation cost.

- a) 16.84%
- b) 17.84%
- c) 15.84%
- d) 18.84%

78) R.P ltd issued 100 lakhs 14% preference shares of Rs 100 each redeemable at par after 5 years. . Calculate cost of preference shares if issue is at 10% premium with 5% floatation cost.

- a) 15.65%
- b) 14.58%
- c) 12.68%
- d) 13.65%

79) 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

80) 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

81) You deposit 2,000 today in bank which pays 15% interest compounded annually how much will the deposit grow 5 years

- a) Rs 4023
- b) Rs 4050
- c) Rs 4055
- d) Rs 4012

82) 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

83) 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

84) 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

85) 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

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

- a) Rs 16,52,893
- b) Rs 15,00,000
- c) Rs 14,56,893
- d) Rs 14,75,000

87) 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

88) Contribution Rs 5,00,000 and operating profit before interest and tax is Rs ,150,000. Calculate operating leverage

- a) 3.33
- b) 2.23
- c) 1.30
- d) 3.45

89) Contribution Rs 3,00,000 and operating profit before interest and tax is Rs 1,05,000. Calculate operating leverage

- a) 2.66
- b) 2.85
- c) 2.30
- d) 2.47

90) Sales 50,00,000 and Contribution 25,00,000. Calculate Variable Cost

- a) Rs 20,00,000
- b) Rs 25,00,000
- c) Rs 24,00,000
- d) Rs 2,00,000