Q=QUESTION	question_description
A=ANSWER	answer_description

Module 1

Q	_________________are a long-term promissory notes with maturities ranging from 5 to 30 years.
A	Notes
A	Shares
A	Bonds
A	Commercial Papers
Q	The focal point of financial management in a firm is
A	The number and types of products or services provided by the firm
A	The minimization of the amount of taxes paid by the firm
A	The creation of value for shareholders
A	The profits earned by the firm in Rs
Q	_______________ and _______________ are the two versions of goals of the financial management of the firm.
A	Profit maximisation, Wealth maximization
A	Value maximisation, Wealth maximisation
A	Sales maximisation, Profit maximization
A	Production maximisation, Sales maximisation
Q	Which of the following is a not money market security
A	National Savings Certificates
A	Treasury bill
A	Certificate of deposit
A	Commercial paper
Q	Which of the following is not considered as capital market security?
A	equity share
A	preferential share
A	corporate bond
A	6-month treasury bill

Q	Which of the following statements is not true with regard to Call money? Select correct one
A	It is short-term finance repayable on demand
A	There is a direct relationship between call rates and other short-term money market instruments.
A	Its maturity period ranges from one day to fifteen days
A	It is used for inter-bank transactions
Q	Equity market is the financial market for
A	Residual claim
A	Fixed claim
A	Variable Claim
A	1 and 2
Q	Classification of financial markets by the maturity of claims are
A	Money market and capital market
A	Primary and secondary market
A	Forward and future market
A	option 2 and 3
Q	An important financial institution that assists in the initial sale of securities in the primary market is the
A	Investment bank.
A	Co-operative bank
A	IRDA
A	RBI
Q	Which of the following are long-term financial instruments? \
A	A negotiable certificate of deposit
A	A banker’s acceptance
A	A U.S. Treasury bond
A	A U.S. Treasury bill
Q	Intermediaries who link buyers and sellers by buying and selling securities at stated prices are called
A	investment bankers
A	traders

A	brokers
A	dealers
Q	Financial institutions expect that
A	moral hazard will occur, as the least desirable credit risks will be the ones most likely to seek out loans
A	opportunistic behavior will occur, as the least desirable credit risks will be the ones most likely to seek out loans
A	borrowers will commit moral hazard by taking on too much risk, and this is what drives financial institutions to take steps to limit moral hazard
A	Option 1 and 3
Q	Which of the following statements about financial markets and securities are false?
A	Few common stocks are traded over-the-counter, although the over-the-counter markets have grown in recent years
A	A corporation acquires new funds only when its securities are sold in the primary market
A	Capital market securities are usually more widely traded than longer term securities and so tend to be more liquid
A	Financial Markets and securities are not standardised and not regulated
Q	Exchange Traded Funds are part of
A	Private Placement
A	Secondary Market
A	Domestic Market
A	Derivatives Market
Q	Bonds that are sold in a foreign country and are denominated in that country's currency are known as
A	foreign bonds
A	Eurobonds
A	Eurocurrencies
A	Eurodollars
Q	The long-run objective of financial management is to
A	Maximize earnings per share

A	Maximize the value of the firm's common stock
A	Maximize return on investment
A	Maximize market share

Module 2

Q	Ali purchased a stock for Rs. 6,000. At the end of the year the stock is worth Rs. 7,500. Ali was paid dividends of Rs. 260. Calculate the total return received by Ali.
A	0.043
A	0.293
A	0.25
A	0.1
Q	Beta Represents the:
A	Unsystematic risk
A	Systemic Risk
A	Systemic as well as unsystemic risks
A	Foreign Exchange Risk
Q	You bought a share for Rs. 100 and sold it for Rs. 120 after one year. You received share dividend Rs.10 during the holding period. What was the rate of holding period return?
A	0.1
A	0.2
A	0.3
A	0.5
Q	How many years a given sum of money must earn at a given compound annual interest rate in order to double that initial amount is given by the (Roughly estimate) Rule _____________
A	Rule of 415
A	Rule of 72
A	Rule of 78
A	Rule of 144

Q	Future value interest factor takes
A	compound rate
A	deflation rate
A	discounting rate
A	inflation rate
Q	Given an investment of Rs. 10,000 for a period of one year, it is better to invest in a scheme that pays:
A	12% interest compounded daily
A	12% interest compounded monthly
A	12% interest compounded annually
A	12% interest compounded quarterly
Q	A deposit of Rs 2,000 per year at the beginning of the year in a bank for 5 years with interest rate of 10 percent pa compounded annually. What will be the value of this series of deposits at the end of 5 years in Rs?
A	13431
A	13000
A	14000
A	12341
Q	Diversifiable risk is caused by
A	Success of marketing programs, winning or losing a major contract
A	War, inflation
A	Recessions
A	floods
Q	Deposit Rs.1,000 annually in a bank for 5 years with compound interest rate of 10 percent pa. What will be the value of this series of deposits (an annuity) at the end of 5 years?
A	6000
A	6105
A	6205
A	6250
Q	A borrower offers 16 per cent nominal rate of interest with quarterly compounding. What is the effective rate of interest ?

A	16
A	17
A	18
A	20
Q	Calculate the return for a stock that earned a Rs. 27 profit per share based on a sale price of Rs104 per share.
A	3.8519
A	1
A	0.0319
A	0.3506
Q	A series of fixed receipts or payments starting at the beginning of each period for a specified number of period is called
A	Hire purchase
A	Perpetuity
A	Lease
A	Annuity due
Q	In order to find out the present value of a sum of Rs. 10,000 to be received at the end of each year for the next 5 years at 10% rate, we use:
A	Future value formula
A	Present value formula
A	Present value of annuity formula
A	Future value of annuity formula
Q	What is the present value of a Rs. 1,000 ordinary annuity that earns 8% annually for a period of 10 years?
A	Rs. 6500
A	Rs. 6710
A	Rs. 6750
A	Rs. 6170
Q	The process of calculating future values of cash flows is called
A	Discounting
A	Compounding
A	Capital recovery

A	Perpetuity
Module 3	
Q	PBIT stands for ____________
A	Profit before Income taxes
A	Profit before interest and taxes
A	Payment before Income taxes
A	Paid Interest because of Income tax.
Q	Which is the popular method of calculation depreciation?
A	Units of Production Depreciation
A	Straight line Depreciation
A	Sum of the Year’s Depreciation
A	Declining balance depreciation
Q	What is the period of Financial statement in india?
A	1st January to 31st December in the same year
A	1st July in the first year to 30th June in the next year
A	1st April in the first year to 31st March in the next year
A	Any period during the same year
Q	Which is the following option fall under Intangible Asset?
A	Goodwill
A	Land
A	Machinery
A	Computer
Q	Working Capital is also known as ____________
A	Cash
A	Current assets
A	Invested Capital
A	Assets
Q	Which financial statements include the flow of cash during the financial period?
A	Cash flow statements

A	Balance Sheet
A	Income statements
A	Statement of changes in equity
Q	Which are the following options does not generate cash?
A	Issue of security
A	Redeem security
A	Raises a bank loan
A	Payment from firms customers
Q	NOPAT stands for
A	Net Operating Profit after Taxes
A	No operation on Project after Termination
A	No Operating Profit after Taxes
A	No Operating Profit after Termination
Q	What does liquidity refer?
A	The ability of a firm to meet its obligation in one week.
A	The ability of a firm to meet its obligation in one month.
A	The ability of a firm to meet its obligation in one year.
A	The ability of a firm to meet its obligation in ten Years.
Q	Acid test ratio is also known as ___________
A	Current ratio
A	Net profit ratio
A	Net sales ratio
A	Quick ratio
Q	What is the riskier source of finance?
A	Equity capital
A	Debt capital
A	Term loan
A	Tangible asset redemption
Q	What is the definition of Gross Profit Margin Ratio?
A	difference of net sales and cost of goods sold , divided by Net sales
A	Operating profit divided net sales
A	Net Profit / Net sales

A	Profit after Tax / Average Total assets
Q	Why deferred tax liability arrises?
A	The difference between cash and profit.
A	The temporary differences between taxable income and accounting profit.
A	The difference sales and profit.
A	The difference cost of goods sold and profit.
Q	Which of the following option is considered as current liabilities?
A	Bills recievables
A	Sundry creditors
A	Advance payments
A	Sundry debtors
Q	What is meant by Assets?
A	Assets are Firm’s own equity Shares.
A	Assets are resources which are expected to provide a firm with future economic benefit.
A	Assets represent obligations that are expected to mature within year.
A	Assets are the differences between taxable income and accounting profit.
Q	Net sales are generally defined as ____________
A	Sales-Sales return -Excise duty
A	Sales and gross profit
A	Cost of goods sold
A	Cost of goods sold
Q	The costs of goods sold is also called ________
A	Cost of sales
A	Cost of goods produced during accounting period.
A	Direct material cost
A	Direct labour cost
Q	What is Gross Profit?
A	Profit before interest and Tax.
A	Difference between Net sales and the cost of goods sold.
A	It represents profit from operations after considering the cost of goods sold and operating expenses.

A	Non operating gains
Q	Which one of the following asset would not be normally depreciated?
A	Land
A	Machinery
A	Computer
A	Patent
Q	What is mean by Investments?
A	Copyrights
A	Noncurrent assets
A	Financial securities owned by the firm.
A	Net book value
Q	Accounts receivable is also known as _______
A	Sundry debtors
A	Sundry creditors
A	Net cash
A	Gross profit
Q	What the Cash flow statement Portrays?
A	The financial position of a firm at a given point of time.
A	The performance of a firm over a period of time
A	The flow of cash through the business during a given accounting period.
A	The flow of cash through the business during three months.
Q	What is the major cash outflow for a firm?
A	Increase in deferred tax liability
A	Payment of taxes
A	Increase in reserves
A	Increase in term loans
Q	Leverage ratio refers to ________________
A	The final result of business operations
A	As activity ratios or asset management raios, measure efficiently the assets are employed by a firm.
A	The ability of a firm to meet its obligations in the short run, usually one year
A	The use of debt finance

Module 4

Q	Assume that Project X costs ₹ 2,500 now and is expected to generate year-end cash inflows of ₹ 900, ₹ 800, ₹ 700, ₹ 600 and ₹ 500 in years 1 through 5. The opportunity cost of the capital may be assumed to be 10 per cent. Calculate the NPV?
A	₹ 250
A	₹ 225
A	₹ 325
A	₹ 275
Q	Capital Budgeting Decisions are:
A	Reversible
A	irreversible
A	Unimportant
A	not required
Q	Capital Budgeting Decisions are based on:
A	Incremental Profit
A	Incremental Cash Flows
A	Incremental Assets
A	Incremental Capital
Q	In Sensitivity Analysis, the emphasis is on assessment of sensitivity of
A	Net Economic Life
A	Net Present Value
A	Both (a) and (b)
A	None of (a) and (b)
Q	A sound Capital Budgeting technique is based on:
A	Cash Flows
A	Accounting Profit
A	Interest Rate on Borrowings
A	Last Divide

Q	There is deterioration in the management of working capital of XYZ Ltd. What does it refer to?	
A	That the Capital Employed has reduced	
A	That the Profitability has gone up	
A	That debtors’ collection period has increased	
A	That Sales has decreased.	
Q	Which of the following is not incorporated in Capital Budgeting?	
A	Rate of Cash Discount.	
A	Required Rate of Return.	
A	Time Value of Money.	
A	Tax-Effect.	
Q	Which of the following techniques does not take into account the time value of money?	
A	Internal rate of return method	
A	Discounted cash payback method	
A	Net present value method	
A	Simple cash payback method	
Q	Consider the following data on a proposed investment: Investment required: Rs. 160,000, Annual cash inflows: Rs. 40,000, Life of the investment: 6 years, Salvage value: 0, Discount rate: 10% Based on the above data, what is the payback period of the proposed investment project?	
A	5 years	
A	3 years	
A	4 years	
A	0.25 years	
Q	What is PV of Rs 100 one year hence with discounting factor 25% ?	
A	Rs 125	
A	Rs 25	
A	Rs 250	
A	Rs 80	

Q	The annual demand for a product is 10,000 units. The cost per item is Rs.20 and inventory carrying cost per unit per annum is 5%. If the cost of order is Rs. 200 per order, determine: Economic Order Quantity (EOQ)	
A	1000	
A	1500	
A	2000	
A	5000	
Q	ABC Ltd is considering undertaking a project that would yield average annual profits (after depreciation) of Rs. 68,000 for 5 years. The initial outlay of the project would be Rs. 800,000. What would be the accounting rate of return for this project?	
A	17%	
A	8.50%	
A	8.00%	
A	9.10%	
Q	Which of the following is not a part of Non-discounted cash flow criteria –	
A	Payback	
A	Discounted payback	
A	Accounting rate of return	
A	Net Present Value	
Q	When current assets are less than current liabilities, then the net working capital is:	
A	Positive	
A	Negative	
A	Zero	
A	Can’t be calculated	
Q	Which among the following is a current asset?	
A	Patents	
A	Plants & Equipment	
A	Goodwill	
A	Cash Balance	

Q	While taking into consideration the trade-off between profitability and risk, a firm with low net working capital will have:	
A	Low Risk and Low Profitability	
A	Low Risk and High Profitability	
A	High Risk and Low Profitability	
A	High Risk and High Profitability	
Q	EOQ is a company’s ________ order quantity that minimizes its total inventory costs.	
A	Minimum	
A	Maximum	
A	Optimal	
A	Not optimal	
Q	___________________ of a firm refers to the composition of its long-term funds and its capital structure.	
A	Capitalisation	
A	Over-capitalisation	
A	Under-capitalisation	
A	Market capitalization	
Q	____________ is the length of time between the firm’s actual cash expenditure and its own cash receipt.	
A	Net operating cycle	
A	Cash conversion cycle	
A	Working capital cycle	
A	Gross operating cycle	
Q	____________________ and __________________________ are the two versions of goals of the financial management of the firm	
A	Profit maximisation, Wealth maximization	
A	Production maximisation, Sales maximisation	
A	Sales maximisation, Profit maximization	
A	Value maximisation, Wealth maximisation	

Q	The gross profit margin is unchanged, but the net profit margin declined over the same period. This could have happened if
A	cost of goods sold increased relative to sales.
A	sales increased relative to expenses
A	Govt. increased the tax rate
A	dividends were decreased.
Q	Which of the following would be considered a application of funds?
A	a decrease in accounts receivable
A	a decrease in cash.
A	an increase in account payable
A	an increase in cash
Q	A capital investment is one that
A	has the prospect of long-term benefits
A	has the prospect of short-term benefits
A	is only undertaken by large corporations
A	applies only to investment in fixed assets
Q	Which of the following would be consistent with a more aggressive approach to inancing working capital?
A	Financing short-term needs with short-term funds
A	Financing permanent inventory buildup with long-term debt
A	Financing seasonal needs with short-term funds
A	Financing some long-term needs with short-term funds
Q	Which of the following would not be financed from working capital?
A	Cash float
A	Accounts receivable
A	Credit sales
A	A new personal computer for the office

Module 5

Q	What is the weighted average cost of capital for a firm?

A	Discount rate which the firm should apply to all of the projects it undertakes.
A	Maximum rate which the firm should require on any projects it undertakes
A	Overall rate which the firm must earn on its existing assets to maintain the value of its stock
A	Rate the firm should expect to pay on its next bond issue
Q	Funds required for purchasing current assets is an example of
A	Fixed capital requirement
A	Ploughing back of profits
A	Working capital requirement
A	Lease financing
Q	Equity shareholders are called
A	Owners of the company
A	Partners of the company
A	Executives of the company
A	Guardian of the company
Q	Two firms that are virtually identical except for their capital structure are selling in the market at different values. According to Modigliani and Miller (M&M) approach
A	this will not continue because arbitrage will eventually cause the firms to sell at the same value.
A	one will be at greater risk of bankruptcy
A	the firm with greater financial leverage will have the higher value
A	this proves that markets cannot be efficient.
Q	The capital structure that maximizes the value of a firm also:
A	Minimizes financial distress costs
A	Minimizes the cost of capital
A	Maximizes the present value of the tax shield on debt
A	Maximizes the value of the debt
Q	To compute the required rate of return for equity in a company using the CAPM, it is necessary to know all of the following EXCEPT:
A	The risk-free rate
A	The beta for the firm

A	The earnings for the next time period
A	The market return expected for the time period
Q	Which of the following is not true about the long term finance purpose
A	To finance fixed assets
A	To finance the inventory
A	Expansion of companies
A	Increasing facilities
Q	A quick approximation of the typical firm's cost of equity may be calculated by
A	Adding a 5 percent risk premium to the firm's before-tax cost of debt.
A	Adding a 5 percent risk premium to the firm's after-tax cost of debt.
A	Subtracting a 5 percent risk discount from the firm's before-tax cost of debt.
A	Subtracting a 5 percent risk discount from the firm's after-tax cost of debt.
Q	Honeywell International Inc has a market debt-equity ratio of 0.5. Assume its current debt cost of capital is 6.5%, and its equity cost of capital is 14%. What is weighted average cost of capital (WACC)?
A	15%
A	10%
A	14%
A	12%
Q	Which of the following is not an assumption in the Miller & Modigliani approach?
A	There are no transaction costs
A	Securities are infinitely divisible
A	All the firms pay tax on their income at the same rate
A	Investors have homogeneous expectations
Q	Which of the following is not true about Line of credit
A	The firm can borrow up to that amount of money without asking, since it is pre-approved
A	Usually informal agreement and may change over time
A	More often, it is in the form of a lost discount that would be given to firms who pay earlier

A	Usually covers peak demand times, growth spurts
Q	The concept of homemade leverage is most associated with:
A	MM Proposition I with no tax.
A	MM Proposition II with no tax.
A	MM Proposition I with tax.
A	MM Proposition II with tax.
Q	Which one of the following statements is correct concerning the weighted average cost of capital (WACC)?
A	The WACC may decrease as a firm's debt-equity ratio increases.
A	When computing the WACC, the weight assigned to the preferred stock is based on the coupon rate multiplied by the par value of the stock.
A	A firm's WACC will decrease as the corporate tax rate decreases.
A	The weight of the common stock used in the computation of the WACC is based on the number of shares outstanding multiplied by the book value per share.
Module 6	
Q	Modigliani and Miller suggest that the value of the firm is not affected by the firm's dividend policy, due to
A	the relevance of dividends
A	the clientele effect
A	the informational content
A	the optimal capital structure
Q	Which of the following techniques does not reward shareholders for investing in a company?
A	Repurchasing company shares
A	Offering non-pecuniary benefits
A	Making a rights issue
A	Paying a final dividend
Q	Which of the following statements lends most support to the theory that dividend payments are irrelevant to the value of ordinary shares?

A	Shareholders making homemade dividends face dealing costs
A	Shareholders are concerned with total earnings rather than with the split between distributed and retained earnings.
A	Investors' discount rates increase with time due to uncertainty.
A	Firms have particular clienteles due to their dividend policy
Q	Which of the following is true for MM Model?
A	Share price goes up if dividend is paid
A	Share price goes down if dividend is paid
A	Market value is unaffected by Dividend policy
A	Share price goes up if dividend is not paid
Q	The view that under a perfect market situation , the dividend policy of a firm is irrelevant, as it does not affect the value of the firm, is held by
A	The bird-in-the-hand argument
A	Gordon’s model
A	Miller and Modigliani’s hypothesis
A	Walter’s model
Q	According to the residual theory of dividends, if the firm’s equity need exceeds the amount of retained earnings, the firm would
A	borrow to pay the cash dividend
A	sell additional stock to pay the cash dividend
A	pay no cash dividends.
A	not need to consider its dividend policy
Q	The problem with a constant payout ratio dividend policy from the shareholder’s perspective is that
A	it bores the shareholders
A	if the firm’s earnings drop, so does the dividend payment
A	there is no informational content
A	even when earnings are low, the company must pay a fixed dividend