DPBS (PG) COLLEGE, ANOOPSHAHR

PAPER: FINANCIAL MANAGEMENT

PAPER CODE: C 305

PRACTICE PAPER

1. Excess working capital is evidence of :
    1. Advanced credit
    2. demand of the product
    3. Idle funds
    4. None of the above
2. Which of the following is not included in Cash ?
    1. Cash in hand
    2. Bank balance
    3. Debenture
    4. None of the above
3. Level of cash in a business is affected by :
    1. Terms of purchase and sale
    2. Political situations
    3. Wishes of financial manager
    4. None of these
4. Optimum working cash balance is one where :
    1. Transaction cost is lowest
    2. Opportunity cost is highest
    3. Total cost is minimum
    4. None of these
5. Normally debtors are collected after 45 days ; inventories have on average holding period of 75 days and creditors payment period on average is 30 days . How much is cash cycle?
    1. 120 days
    2. 90 days
    3. 150 days
    4. None of the above
6. Cash turnover 5 annual cash operating expenses rupee 180000 minimum cash balance required will be :
    1. 36000 rupee
    2. 40000 rupee
    3. 50000 rupee
    4. 15000 rupee
7. Cost of maintaining receivables is /are :
    1. Capital costs
    2. Collection costs
    3. Defaulting cost
    4. All of the above
8. Loss of interest on the payment due from customer for the delayed period is termed as:
    1. Defaulting cost
    2. Delinquency cost
    3. Administrative cost
    4. None of the above
9. Which ratio is not useful for control and analysis of receivables?
    1. Debtors turnover ratio
    2. Average collection period
    3. Ageing schedule of debtors
    4. Average disbursement period
10. Which factor does not affect the size of receivables?
    1. Volume of credit sales
    2. Credit period allowed
    3. Salesman commission
    4. Credit and collection policy
11. As per modern approach to finance function the following decisions are taken :
    1. Investment decision
    2. Financing decision
    3. Dividend decision
    4. All of the above
12. Basic objective of financial management is :
    1. Maximization of profit
    2. Maximizations of shareholder’s wealth
    3. Ensuring financial discipline in the organization
    4. All of the above

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13. Financial management helps in :
    1. The estimation of total requirement of funds and monitoring funds
    2. Long term planning of company's activities
    3. Profit planning for the organization
    4. None of the above
14. In traditional approach, finance manager is responsible for :
    1. Efficient utilization of funds
    2. Arrangement of financial resources
    3. Acquiring capital asset
    4. None of these
15. Financial management is concerned :
    1. Arrangement of funds
    2. Efficient management
    3. All aspects of acquiring and utilization
    4. None of these
16. The market value of a firm is the result of :
    1. Dividend decision
    2. Working capital decision
    3. Capital budgeting decisions
    4. Trades off between risk and return
17. Financial decisions involve :
    1. Investment, financial and sales decisions
    2. Investment financial and dividend decisions
    3. Financing, dividend and sales decisions
    4. None of the above
18. Financial management has been called sometimes before as :
    1. Business finance
    2. Corporation finance
    3. Institutional finance
    4. Both (a) and (b)
19. Traditional approach to finance function was evolved :
    1. Before 1920
    2. Between 1920 and 1930
    3. In 1950
    4. None of the above
20. Financial decision is related to :
    1. Capital structure
    2. Purchase of fixed assets
    3. Dividend distribution
    4. Maintenance of account
21. Financial management is the application of planning and control function to the finance function. Whose statement is this ?
    1. Howard and Upton
    2. J.F. Bradley
    3. J.L massy
    4. Western and Brigham
22. In value maximization objective, value signifies :
    1. Value of net assets
    2. Market value of equity shares
    3. Both (a) and (b) above
    4. Social welfare
23. The investment decisions should aim at investment in assets only when they are expected to earn a return greater than a minimum acceptable return is termed as :
    1. Interest rate
    2. Hurdle rate
    3. Growth rate
    4. Interest rate of return
24. Which of the following activities is not included in financial planning?
    1. Preparing capital structure
    2. Recruiting the clerks
    3. Selling the goods
    4. Preparing the accounts
25. Which of the following is not the main component of financial planning as per Arthur s. Dewing?
    1. Capitalization
    2. Capital structure
    3. Management of capital
    4. Developing financial procedures
26. Financial management is the operational activity of a business that is responsible for obtaining and effectively utilizing the funds necessary for effectively utilizing the funds necessary for effective operations. " definition is given by :
    1. J.E Weston
    2. J.L massy
    3. E.F Brigham
    4. Howard and Upton

27. What is ignored in profit maximization?
    1. Time value of money
    2. Risk
    3. Net value
    4. Wealth
28. Liquidity and profitability are …….. Goals for finance manager.
    1. Different
    2. Competing
    3. Separate
    4. Finance
29. Financial management is :
    1. Administrative process
    2. Analytical process
    3. Centralized process
    4. All of the above
30. Financial management is
    1. An art
    2. A science
    3. Both Art and Science
    4. None of the above
31. …… maximization objective insiders' the risk and time value of money.
    1. Profit
    2. Value
    3. Wealth
    4. Growth
32. Adequate and timely financial planning helps the management in :
    1. Lowering cost of capital
    2. Maximizing the return to owners
    3. Elimination of waste of operations
    4. All of the above
33. The meaning of capital structure is :
    1. ratio of long term sources of capital
    2. Equity and preference share capital
    3. Equity + Pref. Share capital +Reserve
    4. None of the above
34. Capital structure is affected by :
    1. Nature and form of business
    2. Regularity of income
    3. Forms of control over business
    4. All of the above
35. Trading on equity means :
    1. Less equity shares and more long term in capital structure
    2. More equity share less long term loan
    3. Both are equal
    4. None of the above
36. Capital structure is said to be ideal when :
    1. Cost of capital is minimum
    2. Profitability of the business is maximum
    3. Profitability and cost both are maximum
    4. Both (a) and (above)
37. Financial structure means :
    1. Long term fund
    2. Long term fund + current liabilities
    3. Excess of liabilities over assets
    4. None of the above
38. Capital gearing means :
    1. Ratio between equity shares and fixed cost bearing securities
    2. Ratio between equity shares and debentures
    3. Ratio between equity share and preference shares
    4. None of the above
39. High gearing means :
    1. Equity share capital is less than fixed interest bearing capital
    2. Equity share capital is more
    3. Both are equal
    4. Gearing is not related to capital structure
40. Anil Ltd. And Bhawna Ltd. Have equity capital of rupee 5Lakh and rupee 2Lakh respectively. Each of them have earned a profit of rupee 60,000. Anil ltd. Has no preference share capital and debt capital. Whereas Bhawna Ltd. Has paid rupee 10,000 as interest on debentures and rupee 15,000 as preference share dividend. Earnings per share is respectively :
    1. 12 % and 30%
    2. 12% and 25%
    3. 12 and 17.5%
    4. 12% and 15 %

41. If equity share capital is rupee 1,00,000 preference share capital rupee 25000 and debt capital rupee 25000 it is called as :
    1. Low gearing
    2. High gearing
    3. Normal gearing
    4. None of the above
42. Low gearing is justified:
    1. During inflation period
    2. During trade recession
    3. During depression period
    4. None of the above
43. Capital structure determination is necessitated :
    1. Before financial planning
    2. Before capitalization
    3. After capitalization
    4. At the time of capitalization
44. Which is not the principle of capital structure planning?
    1. Principle of cost
    2. Principle of control
    3. Principle of equity
    4. Principle of risk
45. The net operating income approach to capital structure is based on the assumption that :
    1. The overall cost of capital is constant
    2. The cost of debt is constant
    3. The investors see the firm as a whole
    4. All of the above
46. Factor that is irrelevant in determining the choice of debt equity mix is :
    1. Taxation
    2. Industry norm
    3. The nature of asset base
    4. Variability of cash flows
47. Which is not the basis of selecting best alternative of additional finance?
    1. Maximization of earning per share
    2. Maximization of market price per share
    3. Maximization of dividend per share
    4. All of the above
48. Net income approach and net operating income approach both were at first suggested by :
    1. David Durand
    2. J.E Bradley
    3. J.S. Massie
    4. None of the above
49. A company has 5% debentures of rupee 4,00000 , 8% preference shares of rupee 2,00,000 and the number of equity share is 6,000 tax rate is 40% Earning before interest and tax is rupee 120000. The earning per share will be :
    1. Rupee 7
    2. Rupee 7.33
    3. Rupee 10
    4. Rupee 14
50. Abhinav Ltd has an EBIT of rupee 10,00,000. The company has rupee 40,00,000 in 10% debentures. The overall capitalization rate is 12.5% . The equity capitalization rate is :
    1. 10%
    2. 15%
    3. 12.5%
    4. None of these
51. The none productive project should be financed by :
    1. Debt and equity fund
    2. Equity fund
    3. Debt funds
    4. Retained earnings
52. Market price per share is equal to :
    1. EPS x P/E Ratio
    2. P/E Ratio / EPS
    3. EPS x No. Equity Shares
    4. EPS/ P/E Ratio
53. A ltd. Has net operating income of rupee 2,00,000. The company has rupee 4,00,000 5% debentures outstanding. The cost of equity is 11% the average cost of capital of the company is :
    1. 10%
    2. 9.8%
    3. 11%
    4. None of the above

54. ABC ltd. Has profit before interest and taxes of rupee 3,00,000. The applicable tax rate is 40% . This required rate of return on equity in the absence of personal taxes. The value of the company is an mm word with no leverage is :
    1. Rupee 10,00,000
    2. Rupee 11,60,000
    3. Rupee 12,60,000
    4. Rupee 75,00,000
55. EBIT of firm rupee 12,00,000 , 6% debentures rupee 30,00,000 , equity capitalization rate of firm 10% , corporate tax 50% as per MM approach market value of the firm :
    1. Rupees 1,20,00,000
    2. Rupees 60,00,000
    3. Rupees 90.00.000
    4. Rupees 75,00,000
56. Annual EBIT rupee 10,00,000 , 10% debentures rupee 40,00,000, equity capitalization rate 12.5% overall cost of capital is :
    1. 10%
    2. 11%
    3. 11.36%
    4. None of the above
57. EPS rupees 6
    - No. Of equity shares 6,000
    - Preference dividend rupees 16,000
    - Interest on debentures rupees 20,000
    - Tax rate 50% net operating profit is :
        1. Rupees 104000
        2. Rupees124000
        3. Rupees 110000
        4. Rupees 132000
58. EBIT of company rupee 5,00,000, 10% debentures of rupee 8,00,000, equity capitalization rate 16% using traditional method, the value of the firm is :
    1. Rupee 3125000
    2. Rupee 2625000
    3. Rupee 3425000
    4. None of the above
59. The function of financial leverage is :
    1 Financial arrangement
    2 Debt redemption
    3 Analysis of effect of fixed charges bearing sources of capital on profits
    4 Effect of equity share capital on profits
60. Leverages means :
    1 Gear box of car
    2 Capital structure
    3 Profit-loss
    4 Effectiveness
61. Sales rupee 2,00,000
    - Variable cost rupee 1,40,000
    - Fixed cost rupee 40,000
    - Operating leverage will be :
        1. 5
        2. 3
        3. 2
        4. 2.5
62. Variable cost as% of sales 66*2/3 interest rupee 200 operating leverage 5 financial leverage 3 amount of sales is :
    1. Rupee 6,000
    2. Rupee 4,500
    3. Rupee 3,000
    4. Rupee 5,000
63. Operating leverage is affecting by:
    1. Fixed costs
    2. Variable costs
    3. Per unit selling price or sales volume
    4. All of the above
64. The sales of a firm rupee 75Lakh variable costs 42Lakhs fixed cost rupee 6Llakh operating leverage is :
    1. 1.22
    2. 1.67
    3. 3.00
    4. 5.50
65. Sales rupee 2,00,000 variable cost rupee 1,40,000 fixed cost rupee 40,000 , 10% interest on debt of rupee 1,00,000 combined leverage is
    1. 4
    2. 3
    3. 6
    4. 2

66. Operating leverage is 2 financial leverage is 1.5 if sales increases by 5% earnings before tax will rise by :
    a. 15%
    b. 7.5%
    c. 10%
    d. None of the above
67. Leverage may be defined as percentage returned may be defined as percentage return on equity to percentage return on capitalization. This definition is given by :
    a. Solomon ezra
    b. J.E Walter
    c. S.C Kuchal
    d. J.V. Home
68. If the firm employs a greater amount of fixed cost and a small amount of variable cost, the firm is said to have….. Degree of operating leverage.
    a. High
    b. Low
    c. Zero
    d. None of the above
69. Which leverage can be calculated with the help of percentage change in operating profit and percentage change in sales?
    a. Degree of financial leverage
    b. Degree of operating leverage
    c. Degree of combined leverage
    d. None of the above
70. Which leverage can be calculated with the help of percentage change in taxable profit and percentage change in operating profit ?
    a. Degree old operating leverage
    b. Degree of composite leverage
    c. Degree of financial leverage
    d. None of the above
71. The degree of financial leverage will be maximum at nearby :
    a. B.E.P.
    b. Contribution
    c. Margin of safety
    d. None of the above
72. Financial leverage is calculated with the help of
    a. Contribution and operating profit
    b. Operating profit and profit before tax
    c. Contribution and profit before tax
    d. None of the above
73. Which leverage explain the relationship between contribution and earning before interest and tax ?
    a. Operating leverage
    b. financial leverage
    c. combined leverage
    d. none of the above
74. Which leverage explains the relationship between contribution and earning before interest and tax ?
    a. Financial leverage
    b. Operating leverage
    c. Composite leverage
    d. None of these
75. Financial leverage finds particular application in :
    a. Capital structure management
    b. Maximization of EPS
    c. Measurement of financial risk
    d. All of the above
76. Indifference point is that level of EBIT at which EPS are …… regardless of leverage in alternative financial plans.
    a. The same
    b. Increasing
    c. Decreasing
    d. None of the above
77. If composite leverage is 4, then by what percentage will taxable income increase if sales increase by 6% ?
    a. 4%
    b. 6%
    c. 24%
    d. None of the above
78. Which of the following is an expression of operating leverage?
    a. Contribution/EBIT
    b. EET/Contribution
    c. Quantity/EAT
    d. Quantity/EBIT

79. If financial leverage is 2.14, by what percentage will taxable income increase if EBIT increase by 6% ?
   a. 0.36%
   b. 12.84%
   c. 21.4%
   d. None of the above
80. In financial leverage is 2 and EPS increase by 10% then EBIT will increase by :
   a. 8%
   b. 5%
   c. 20%
   d. None of the above
81. If operating leverage is 2 the sales increase by 20% , then the increase in income before interest and tax will be :
   a. 40%
   b. 10%
   c. 18%
   d. None of the above
82. If operating leverage is 3.5; by what percentage will EBIT increase if sales increase by 10%
   a. 0.35%
   b. 10%
   c. 35%
   d. None of the above
83. XYZ ltd. Manufactured and sold 20,000 units with a variable cost of rupee 20 per unit and rupee 30 as selling price. The period was rupee 1,00,000. The operating leverage of the firm is :
   a. 1.0
   b. 1.5
   c. 2.5
   d. 2.5
84. Neha Limited is having sales of rupee 1,000 lakhs and its variable cost represent 30% of its sales the fixed cost for the year is rupee 400 lakhs and the interest on its term loan is rupee 100 lakhs . The total leverage of the company is
   a. 2.33
   b. 3.45
   c. 1.50
   d. 3.50
85. It the operating leverage is 2 and sales increases by 50% the percentage increase in EBIT will be
   a. 25%
   b. 100%
   c. 50%
   d. 75%
86. Earning per share rupee 10 market capitalization rate 10% payout ratio 50% rates of return of internal investment 15% using Walter formula , market value of share is :
   a. 125
   b. 100
   c. 115
   d. 135
87. Cost of capital 10% earning per share rupee 10 internal rates of return 10% retention ratio 30% using Gordon model , market price of share is : in rupee
   a. 127
   b. 92
   c. 100
   d. 400
88. Earning per share rupee 4 rates of return as desired by shareholders 15% return as desired by shareholders 15% return on investment 10% payout ratio 40% as per Walter model price per share :
   a. 29.87
   b. 29.33
   c. 28.80
   d. 27.60
89. Earning per share rupee 5 capitalized rate of earning 16% market price rupee 50 dividend payout 40% find return on investment :
   a. 10%
   b. 20%
   c. 15%
   d. 25%

90. Cost of equity capital 12% current market value of the firm rupee 10,00,000 (@ rupee 10 per share new investment rupee 3,40,000 earning rupee 2,75,000 dividend per share 2.50 price p1 will be as per mm approach when dividend not paid :
   a. Rupee 11.20
   b. Rupee 11.60
   c. Rupee 11.80
   d. Rupee 12.00
91. Dividend means :
   a. Volumes of profit
   b. Ratio of profit to capital
   c. Portion of profit for shareholders
   d. Portion of profit for debenture holders
92. "dividend is not relevant in determining the value of the company who holds this opining ?
   a. J.E Walter
   b. M.J. Gordon
   c. Ezra Solomon
   d. Modigliani miller
93. The effect of plough back of profit will be
   a. Availability of fund for development
   b. Increase in value of shares
   c. Increase in earnings per share and dividend per share
   d. All of the above
94. Return on investment 15% rate of capitalization 10% earning per share rupee 8% dividend payout ratio 50% value of equity as per Walter mode
   a. Rupee 10
   b. Rupee 80
   c. Rupee 60
   d. Rupee 68
95. Sound dividend policy is based on :
   a. Symmetry between investment of profit and distribution of profit
   b. Attracting the investors
   c. Payment of bonus
   d. Keeping the dividend rate stable
96. Cost of capital 10% earning per share rupee 10 internal rate of return 8% retention ratio 60% value per share as per Gordon model :
   a. Rupee 90
   b. Rupee 87
   c. Rupee 77
   d. Rupee 70
97. Which of the following is not Walter's model assumption?
   a. The company has long life
   b. All earnings are either reinvested internally or distributed as dividend
   c. There is no floating cost for the company
   d. None of the above
98. Nature of seasonal working capital is :
   a. Short-term
   b. Long-term
   c. Medium-term
   d. Variable
99. Fixed Working capital is :
   a. Minimum stock of raw material
   b. Minimum balance of bank
   c. Salaries of workers
   d. All of the above
100. Adequacy of working capital required :
   a. For prompt payment
   b. For increase in credit
   c. For convenience in raising loan
   d. All of the above