Dr.G.R.Damodaran College of Science

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CRISL rated 'A' (TN) for MBA and MIB Programmes

III B.COM [2015 - 2018]
SEMESTER V
CORE : FINANCIAL MANAGEMENT - 502B
Multiple Choice Questions.

1. Financial Management is mainly concerned with ____________.
   A. Arrangement of funds
   B. All aspects of acquiring and utilizing financial resources for firms activities
   C. Efficient Management of every business.
   D. Profit maximization
 ANSWER: B

2. The primary goal of the financial management is ____________.
   A. To maximize the return
   B. To minimize the risk.
   C. To maximize the wealth of owners.
   D. To maximize profit..
 ANSWER: D

3. Capital budgeting is related to ____________.
   A. Long terms assets.
   B. Short term assets.
   C. Long terms and short terms assets.
   D. Fixed assets.
 ANSWER: A

4. Working capital management is managing ____________.
   A. long term assets.
   B. short term assets and liabilities.
   C. long terms liabilities.
   D. only short term assets.
 ANSWER: B

5. When few hold the shares of a public limited company it is called ____________.
   A. Privately owned company
   B. Publicly traded company
   C. Closely held company.
   D. Public and private company.
 ANSWER: A

6. Financial decisions involve ____________.
   A. Investment, financing and dividend decisions.
   B. Investment sales decisions.
   C. Financing cash decisions.
   D. Investment dividend decisions.
  ANSWER: C

7. Traditional approach confines finance function only to ____________.
   A. Raising
   B. Mobilizing
   C. Utilizing
   D. Financing
  ANSWER: A

8. The companys cost of capital is called ____________.
   A. Leverage rate
   B. Hurdle rate.
   C. Risk rate.
   D. Return rate.
  ANSWER: A

9. Market value of the shares are decided by ____________.
   A. the respective companies.
   B. the investment market.
   C. the government .
   D. share holders.
  ANSWER: D

10. Cost of retained earnings is equal to ____________.
   A. Cost of equity.
   B. Cost of debt.
   C. Cost of term loans.
   D. Cost of bank loan.
  ANSWER: C

11. The companys average cost of capital is ____________.
   A. the average cost of equity shares and debentures
   B. the average cost of equity preference shares.
   C. the average cost of all sources of long-term funds .
   D. the average cost of short term funds..
  ANSWER: B

12. The cost of capital of a long term debt is generally ____________.
   A. Lower than the owned funds
   B. Equal to that of owned funds.
   C. Higher than that of owned funds.
   D. More or less than owned funds.

ANSWER: C

13. Interest on debt capital provides a _____________ to the equity share holders.
   A. Added profit.
   B. Tax shield.
   C. Additional financial burden
   D. Dividend.
 ANSWER: A

14. The required rate of return for an investment project should _____________.
   A. leave the market price of the stock unchanged
   B. increase the market price.
   C. reduce the market price.
   D. constant market price.
 ANSWER: A

15. When a company uses increased fixed cost for production, this is an example of what type of leverage _____________.
   A. operating leverage
   B. financial leverage
   C. variable cost leverage .
   D. combined leverage
 ANSWER: A

16. The objective of break even analysis is to determine the break-even quantity of output by studying the relationships among_____________.
   A. the firms cost structure, volume of output and profit.
   B. the firms dividend policy and cost of capital.
   C. the firms working capital and its components.
   D. the firms capital structure.
 ANSWER: A

17. Fixed cost per unit _____________.
   A. changes according to volume of production
   B. be flexible according to the rate of interest.
   C. does not change with volume of production.
   D. remains constant. .
 ANSWER: C

18. Variable cost per unit _____________.
   A. varies with the level of output.
   B. remains constant irrespective of the level of output.
   C. changes with the growth of the firm.
   D. does not change with volume of production
 ANSWER: A

19. Operating leverage measures _____________.
   A. the business risk.

B. financial risk.
C. both risks.
D. production risk.
ANSWER: D

20. Financial leverage helps one to estimate ____________.
A. the business risk
B. the financial risk.
C. both risks
D. production risk.
ANSWER: C

21. Financial leverage is also known as ____________.
A. Trading on equity
B. Trading on debt .
C. Interest on equity .
D. Interest on debt.
ANSWER: A

22. A firm will have favorable leverage if its _____ are more than the debt cost.
A. interest.
B. equity.
C. earnings.
D. debt.
ANSWER: B

23. Operating leverage x financial leverage= _____.
A. composite leverage.
B. financial composite leverage.
C. operating composite leverage.
D. fixed leverage
ANSWER: C

24. Operating leverage = ______.
A. contribution less profit.
B. contribution less sales.
C. contribution less total expenses
D. contribution less operating profit.
ANSWER: B

25. Cost of capital is the _____ rate of return expected by its investors
A. minimum
B. maximum.
C. equal.
D. higher.
ANSWER: A

26. According to the traditional approach cost of capital affected by _____.

A. debt-equity mix.
B. debt-capital mix
C. equity expenses mix.
D. debt-interest mix
ANSWER: D

27. A fixed rate of ____________is payable on debentures.
A. dividend
B. commission
C. . interest
D. brokerage
ANSWER: D

28. Effective cost of debentures is ____________as compared to shares
A. higher
B. lower
C. equal
D. . medium
ANSWER: C

29. Ownership securities are represented by ____________.
A. securities .
B. equities
C. debt
D. debentures .
ANSWER: A

30. Finance function is one of the most important functions of ____________.
A. business .
B. marketing .
C. financial.
D. debt .
ANSWER: C

31. Traditional theorists believe that_______________.
A. there exists an optimal capital structure.
B. . no optimal capital structure.
C. equal optimal capital structure.
D. 100% debt financial organizations
ANSWER: B

32. Altering the leverage ratio does not influence the market value of the firm. This is the basic premise of ____________.
A. net income approach.
B. traditional approach
C. modern approach.
D. net operating income approach.
ANSWER: D

33. By inducting debt component in the capital structure one is able to bring down the overall cost of capital. This is the preposition of ____________.

A. net income approach.
B. traditional approach.
C. . operating income approach .
D. modern approach.

ANSWER: D

34. The job of a finance manager is confined to _____________.

A. Raising of funds
B. Management of cash
C. Raising of funds and their effective utilization
D. Raising of profits

ANSWER: C

35. Arbitrage is the level processing technique introduced in ____________.

A. Net income approach
B. MM approach .
C. Operating approach
D. Traditional approach.

ANSWER: A

36. Operating incomes and the discount rate of a particular risk class are the 2 factors determining ____________.

A. Dependence hypothesis
B. Traditional view.
C. Modern view.
D. Independence hypothesis.

ANSWER: D

37. Induction of debt component into a capital structure is advantageous if taxes are applicable to corporate income. The following is the reasons for such action

A. Dividend and retained earnings are not deductible for tax purpose
B. Interest on debt is a tax deductible expense
C. Both a & b.
D. . Only on interest on debts .

ANSWER: D

38. The available capital funds are to be carefully allocated among competing projects by careful prioritization. This is called ____________.

A. capital positioning.
B. capital structuring.
C. capital rationing.
D. capital budgeting.

ANSWER: D

39. Capital budgeting decisions in India cannot be reversed due to ____.

A. . economic conditions.
B. . ill organized market for second hand capital goods.
C. government regulations.
D. . policy of the management
ANSWER: C

40. Payback period is superior to other methods, if the objective of the investor is to ____________.
A. consider cash flow in its entirety
B. consider the present value of future cash flows
C. consider the liquidity.
D. consider the inflows in its entirety .
ANSWER: A

41. If the pay back is a bad rule, the average returns on book value is ____________.
A. worse.
B. better
C. the best
D. equal.
ANSWER: C

42. Net present value is a popular method which falls ____________.
A. With in non- discount cash flow method.
B. With in discount cash flow method
C. Equal With in non- discount cash flow method.
D. No discount cash flow
ANSWER: C

43. A demerit of IRR method is that it does not distinguish between ____________.
A. lending & borrowing
B. . discounting & non- discounting.
C. cash flow & non- cash flow.
D. inflow & out flow.
ANSWER: C

44. Net working capital is the excess of current asset over ____________.
A. Current liability.
B. Net liability.
C. Total payable.
D. Total liability.
ANSWER: C

45. Working capital is also known as ____________capital .
A. circulating .
B. fluctuating .
C. fixed
D. going .
ANSWER: B

46. Greater the size of a business unit ____ will be the requirements of working capital.
A. lower.
B. no change.
C. larger.
D. fixed
ANSWER: A

47. The fixed proportion of working capital should be generally financed from the ____ capital sources
A. fixed .
B. variable.
C. semi-variable.
D. borrowed.
ANSWER: D

48. The volume of sales is influenced by ____ of a firm
A. finance policy.
B. credit policy.
C. profit policy .
D. fund policy.
ANSWER: D

49. Factoring is a form of financing ___.
A. payable.
B. receivables.
C. borrowings.
D. debts
ANSWER: C

50. Inventory management is essential because investments in stock are _____.
A. high
B. low.
C. medium .
D. fixed.
ANSWER: B

51. The time required to process and execute an order is called ____________.
A. allowed time .
B. lead time .
C. accepted time .
D. fixed time .
ANSWER: D

52. The policy concerning quarters of profit to be distributed as dividend is termed as ____________.
A. Profit policy .
B. Dividend policy .
C. Credit policy.
D. Reserving policy .
ANSWER: C

53. The company must implement the bonus issues decision with in _____________. of the director approval .

A. 6 months.
B. 3 months.
C. 2 months.
D. 1 month.

ANSWER: B

54. The most appropriate dividend policy is the payment of _____________dividend per share consent.

A. constant.
B. variable.
C. higher.
D. lower.

ANSWER: B

55. A company having easy access to the capital markets can follow a _____________. dividend policy

A. liberal.
B. formal .
C. strict.
D. Varying.

ANSWER: C

56. _____________ dividend promises to pay shareholders at future date.

A. Scrip.
B. Cash.
C. Stock.
D. Property .

ANSWER: B

57. According to the ___ model, the dividend decision is irrelevant.

A. MM.
B. Garden.
C. Walter.
D. XY.

ANSWER: D

58. The cash management refers to management of ___.

A. cash only
B. cash and bank balances.
C. cash and near cash assets
D. fixed assets.

ANSWER: B

59. The appropriate objective of an enterprise is _______.

A. maximization of sales
B. Maximization of owners wealth
C. Maximization of profits

D. Management of cash
ANSWER: B

60. Offering cash discount to customers result is ____________.
A. reducing the average collection period.
B. increasing the average collection period
C. increasing sales.
D. decreasing sales .
ANSWER: D

61. A higher accounts receivable turnover ratio means_________
A. lower debt collection period.
B. higher debt collection period.
C. lower sales.
D. higher sales
ANSWER: B

62. Good inventory management is good _____ management
A. financial.
B. marketing.
C. stock.
D. purchasing.
ANSWER: D

63. Setup cost is a type of ____ cost.
A. fixed.
B. variable.
C. semi variable.
D. carrying.
ANSWER: D

64. Re-order level is ____________than safety cash level .
A. higher.
B. lower.
C. medium.
D. fixed .
ANSWER: D

65. MM approach assumes that ____________markets are perfect.
A. Receivable.
B. Capital.
C. Stock.
D. Exchange .
ANSWER: D

66. While evaluating capital investment proposal the time value of money is considered in case of ____________.
A. Pay back method.

B. Accounting rate.
C. Internal rate.
D. Discounted cash flow.
ANSWER: C

67. The return after the pay off period is not considered in case of ____________.
A. Pay back period method .
B. Interest rate method.
C. Present value method
D. Discounted cash flow method .
ANSWER: C

68. Depreciation is include in costs in case of ____________.
A. Pay back method.
B. Accounting rate.
C. Discounted cash flow.
D. Present value method.
ANSWER: A

69. The arbitrary process is the behavioral foundation for the ____________.
A. MM approach.
B. XX approach.
C. Gorder approach.
D. Miller approach.
ANSWER: B

70. The bonus issue is permitted to be made out of ____________ and premium collected in cash
A. Free reserves.
B. Free interest
C. Free bonus.
D. Free cash dividend.
ANSWER: A

71. The bonus issue is made to make the nominal value and the ____________ value of the shares of the company.
A. Face.
B. Market
C. Stock.
D. Real
ANSWER: B

72. Dividend policy of a firm affects both the long time financing and____________. wealth.
A. Owners .
B. Creditors.
C. Debtor
D. Shareholders
ANSWER: C

73. ___________is the distribution of the profits of a company among its shareholders
   A. Shares.
   B. Interest.
   C. Dividend.
   D. Commission .
 ANSWER: C

74. Which of the following is not an objective of financial management?
   A. Maximization of wealth of shareholders
   B. Maximization of profits
   C. Mobilization of funds at an acceptable cost..
   D. Ensuring discipline in the organization..
 ANSWER: D

75. Which of the following is not a function of a finance manager?
   A. Mobilization of funds.
   B. Deployment of funds.
   C. Control over use of funds.
   D. Manipulate share price of the company.
 ANSWER: D

76. The market value of the firm is the result of ____________.
   A. Dividend decisions.
   B. Working capital decisions.
   C. Capital budgeting decisions
   D. Trade-off between cost and risk.
 ANSWER: D

77. Which of the following is related to the control function of the financial manager?
   A. Interaction with the bankers for arranging a short-term loan
   B. Comparing the costs and benefits of different sources of finance
   C. Analysis of variance between the targeted costs and actual costs incurred.
   D. Assessing the costs and benefits of a project under consideration.
 ANSWER: C

78. The objective of financial management is to ______________.
   A. generate the maximum net profit.
   B. generate the maximum retained earnings.
   C. generate the maximum wealth for its shareholders
   D. . generate maximum funds for the firm at the least cost.
 ANSWER: C

79. Which of the following statements represents the financing decision of a company?
   A. Procuring new machineries for the R&D activities.
   B. Spending heavily for the advertisement of the product of the company
   C. Adopting state of the art technology to reduce the cost of production.
   D. Purchasing a new building at Delhi to open a regional office.
 ANSWER: D

80. Designing an optimal capital structure by using suitable financial The objective of financial management to increase the wealth of the shareholders mean to _____________.
   A. increase the physical assets owned by the firm.
   B. increase the market value of the shares of the firm
   C. increase the cash balance of the company.
   D. increase the total number of outstanding shares of the company.
 ANSWER: D

81. Which of the following is a function of the finance manager?
   A. Mobilizing funds.
   B. Risk returns trade off.
   C. Deployment of funds.
   D. Control over the uses of funds.
 ANSWER: D

82. Which of the following is not a function performed by a financial system?
   A. Savings function.
   B. Liquidity function
   C. Risk function
   D. Social function.
 ANSWER: D

83. Financial risk arises due to the ____________.
   A. variability of returns due to fluctuations in the securities market.
   B. changes in prevailing interest rates in the market.
   C. leverage used by the company
   D. . liquidity of the assets of the company.
 ANSWER: D

84. The risk that arises due to change in the purchasing power is called __________Business risk.
   A. Financial risk.
   B. Interest rate risk.
   C. Business risk.
   D. Inflation risk.
 ANSWER: D

85. Long -term solvency is indicated by _____________.
   A. Liquidity ratio
   B. Debt-equity ratio
   C. Return coverage ratio
   D. Both a and b
 ANSWER: B

86. Which of the following is/are the problem(s) encountered in financial statement analysis?
   A. Development of benchmarks
   B. Window dressing.
   C. Interpretation of results

D. All of the above.
ANSWER: D

87. Earnings Per Share (EPS) is equal to ____________
A. Profit before tax/No. of outstanding shares.
B. Profit after tax/No. of outstanding shares
C. Profit after tax/Amount of equity share capital.
D. Profit after tax less equity dividends/No. of outstanding shares.
ANSWER: B

88. Degree of total leverage can be applied in measuring change in _____________
A. EBIT to a percentage change in quantity.
B. EPS to a percentage change in EBIT.
C. EPS to a percentage change in quantity.
D. Quantity to a percentage change in EBIT.
ANSWER: C

89. The measure of business risk is_____________.
A. operating leverage.
B. financial leverage.
C. total leverage.
D. working capital leverage.
ANSWER: A

90. The value of EBIT at which EPS is equal to zero is known as ___________
A. Break even point.
B. Financial break even point.
C. Operating break even point
D. Overall break even point.
ANSWER: B

91. Degree of financial leverage is a measure of relationship between ____________.
A. EPS and EBIT.
B. EBIT and quantity produced.
C. EPS and quantity produced.
D. EPS and sales.
ANSWER: A

92. Operating leverage examines ____________.
A. The effect of the change in the quantity on EBIT
B. The effect of the change in EBIT on the EPS of the company.
C. The effect of the change in output to the EPS of the company.
D. The effect of change in EPS on the output of the company.
ANSWER: A

93. Which of the following is the expression for operating leverage?
A. Contribution/EBIT.
B. EBT/Contribution.

C. Contribution/EAT.
D. Contribution/Quantity.
ANSWER: A

94. Operating Leverage is the response of changes in ______________.
A. EBIT to the changes in sales..
B. EPS to the changes in EBIT
C. Production to the changes in sales.
D. None of the above.
ANSWER: A

95. Operating Leverage Measures the responsiveness of earnings per share to variability in _______
A. earnings before interest
B. taxesIs undefined at the operating break even point
C. All of the above.
D. None of the above.
ANSWER: C

96. The use of preference share capital as against debt finance ______________.
A. Reduces DFL.
B. Increases DFL.
C. Increases financial risk.
D. Both a and b.
ANSWER: B

97. The Degree of Financial Leverage (DFL) _______________.
A. Measures financial risk of the firm.
B. Is zero at financial break even point.
C. Increases as EBIT increases.
D. Both a and b.
ANSWER: A

98. Operating leverage measures the sensitivity of the ____________
A. Earnings per share.to changes in quantity.
B. Earnings before interest and taxes
C. Profit before tax.
D. Dividend per share.
ANSWER: C

99. Which one of the following is not a source of long-term finance?
A. Equity capital.
B. Preference capital.
C. Commercial paper.
D. Term loan.
ANSWER: D

100. A cumulative preference share is one _______________.
A. in which all the unpaid dividends are carried forward and payable.

B. which can be converted in to equity shares.
C. which can be redeemed
D. which entitle the preference shareholders to participate in surplus profits and assets.
ANSWER: A

101. Which of the following is not a source of long-term finance?
A. Equity shares.
B. Preference shares.
C. Commercial papers
D. Reserves and surplus.
ANSWER: D

102. According to traditional approach, the average cost of capital ________________.
A. Remains constant up to a degree of leverage and rises sharply thereafter with every increase in leverage
B. Rises constantly with increase in leverage
C. Decrease up to certain point, remains unchanged for moderate increase in leverage and rises beyond a certain point
D. Decrease at an increasing rate with increase in leverage
ANSWER: C

103. Which of the following approaches advocates that the costs of equity capital and debt capital remain unaltered when the degree of leverage varies?
A. Net Income Approach.
B. Traditional Approach.
C. Modigliani-Miller Approach.
D. Net operating Income.
ANSWER: A

104. The cost of capital of a firm is _______________.
A. The dividend paid on the equity capital.
B. The weighted average of the cost of various long-term and short-term sources of finance.
C. The average rate of return it must earn on its investments to satisfy the various investors
D. The minimum rate of return it must earn on its investments to keep its investors satisfied.
ANSWER: C

105. The constant growth model of equity valuation assumes that ______________.
A. The dividends paid by the company remain constant.
B. The dividends paid by the company grow at a constant rate of growth.
C. The cost of equity may be less than or equal to the growth rate.
D. The growth rate is less than the cost of equity.
ANSWER: D

106. Which of the following is not a feature of an optimal capital structure?
A. Safety.
B. Flexibility.
C. Control.
D. Solvency.

ANSWER: B

107. The overall capitalization rate and the cost of debt remain constant for all degrees of leverage. This is pronounced by ______________.

A. Traditional approach
B. Net operating income approach
C. Net income approach
D. MM approach

ANSWER: C

108. While calculating weighted average cost of capital _________.

A. Retained earnings are excluded.
B. Cost of issues are included.
C. Weights are based on market value or on book value
D. Equity shares are given more weights.

ANSWER: D

109. Which of the following is not an assumption Miller and Modigliani approach?

A. There are no corporate or personal income tax.
B. Investors are assumed to be rational and behave accordingly.
C. There is no corporate tax though there are personal income tax.
D. Capital markets are perfect .

ANSWER: D

110. Which of the following is not an assumption in the Miller & Modigliani approach?

A. There are no transaction costs.
B. Securities are infinitely divisible.
C. Investors have homogeneous expectations
D. All the firms pay tax on their income at the same rate.

ANSWER: D

111. While calculating the weighted average cost of capital, market value weights are preferred because _________________.

A. Book value weights are historical in nature.
B. This is in conformity with the definition of cost of capital as the investors minimum required rate of return.
C. Book value weights fluctuate violently.
D. Market value weights are fairly consistent over a period of time.

ANSWER: C

112. Cost of equity capital _____________.

A. Is lesser than the cost of debt capital.
B. Is equal to the dividend rate expectations of equity shareholders for the coming year.
C. Is equal to the dividend rate declared on equity shares.
D. Is equal to the return earned on equity capital

ANSWER: C

113. While calculating weighted average cost of capital _____________.

A. Preference shares are given more weight age.
B. Cost of issue is considered
C. Tax factor is ignored.
D. Risk factor is ignored.
ANSWER: B

114. Cost of retained earnings is equal to ___________.
A. Cost of equity to be issued.
B. Cost of internal equity.
C. Rate of dividend expected to be declared
D. Present rate of dividend declared.
ANSWER: B

115. Under which of the following approaches cost of equity capital is assumed to be constant with the change in leverage?
A. Net income approach.
B. Modigliani and Miller approach.
C. Net operating income approach.
D. Traditional approach.
ANSWER: A

116. Which of the following ratios is not affected by the financial structure and the tax rate of a company?
A. Net profit margin.
B. Earning power.
C. Earnings per share.
D. Capitalization rate
ANSWER: C

117. Which of the following factors influence(s) the capital structure of a business entity?
A. Bargaining power with the suppliers
B. Demand for the product of the company
C. Technology adopted
D. Adequate of the assets to meet any sudden spurt in demand.
ANSWER: C

118. Which of the following is false about equity capital as a source of finance?
A. Using equity capital to finance working capital will never lead to technical insolvency.
B. Assessing the cost of equity capital is an easy task.
C. Cost of equity capital is generally more than the cost of debt
D. The more a company depends on equity capital the less will be the financial risk.
ANSWER: B

119. Which of the following statements related to the capital structure theories is true?
A. According to net income approach, the costs of equity and debt remain constant irrespective of the degree of leverage
B. As per the traditional approach, the overall cost of capital for a firm remains same for all degree of leverage.
C. A firm should choose the debt-equity ratio in such a way that it will minimize the tax liability.

D. According to the net operating income approach, the overall cost of capital increases as the degree of leverage increases

ANSWER: A

120. Which of the following statements is an assumption under Miller and Modigliani approach to capital structure?

A. Investors are assumed to be greedy

B. The average expected future operating earnings of any firm are certain and same as that of the others belonging to the same class of business risk.

C. Individuals and business firms are liable to pay taxes.

D. The securities are traded in marketable lots only.

ANSWER: C

121. In order to maximize the value of a firm according to Walter Model, when the return on investment is more than the cost of equity capital, the firm should ____________.

A. Adopt 100% dividend pay-out policy.

B. Not pay dividends at all.

C. Be indifferent as to the dividend policy

D. Leave the decision of dividend payment to the discretion of Board of Directors.

ANSWER: B

122. Which of the following methods does a firm resort to avoid dividend payments?

A. Share splitting.

B. Declaring bonus shares.

C. Rights issue.

D. New issue.

ANSWER: B

123. Walters model on dividend policy assumes that___________.

A. The firm offers an increasing amount of dividend per share at a given level of price per share

B. The firm has a finite life

C. The cost of capital of the firm is variable.

D. Equal to current assets plus current liabilities including bank borrowings.

ANSWER: D

124. Under trading means_______________.

A. Having low amount of working capital

B. High turnover of working capital

C. Sales are less compared to assets employed.

D. Low turnover of working capital.

ANSWER: D

125. Which of the following techniques of project appraisal does not consider the time value of money?

A. Benefit cost ratio.

B. Net present value.

C. Internal rate of return.

D. Annual capital charge.

ANSWER: C

126. Which of the following statement is true if the Net Present Value (NPV) of a positive?
   A. Internal Rate of Return(IRR) is more than the cost of capital.
   B. The pay-back period of the project is less than one year
   C. Benefit cost ratio is less than unity.
   D. Accepting the project has an indeterminate effect on shareholders
 ANSWER: D

127. If two projects are mutually exclusive and differ substantially in terms of the initial outlays and subsequent expenses, which of the following criteria of evaluation is best suited?
   A. Pay-back period.
   B. Annual capital charge.
   C. NPV.
   D. IRR.
 ANSWER: A

128. ________ decision relates to the determination of total amount of assets to be held in the firm.
   A. Financing.
   B. Investment.
   C. Dividend .
   D. Controlling.
 ANSWER: D

129. Cost of capital is the ______ rate of return expected by the investor.
   A. Maximum.
   B. Average.
   C. Marginal.
   D. Minimum.
 ANSWER: A

130. Ownership securities are represented by _________.
   A. Securities .
   B. Equities.
   C. Debt.
   D. Debentures .
 ANSWER: B

131. Financial analysts,working capital means the same thing as __________.
   A. total assets.
   B. fixed assets.
   C. current assets.
   D. current assets minus current Liabilities.
 ANSWER: D

132. In deciding the optimal level of current assets for the firm, management is confronted with __________.
   A. Trade-off between profitability and risk.
   B. Trade-off between liquidity and risk.

C. Trade-off between equity and debt.
D. Trade-off between short-term versus long-term borrowing
ANSWER: A

133. The amount of current assets that varies with seasonal requirements is referred to as __________ working capital.
A. Permanent
B. Net
C. Temporary
D. Gross
ANSWER: C

134. __________ is concerned with the acquisition, financing, and management of assets with some overall goal in mind.
A. Financial management.
B. Profit maximization.
C. Agency theory.
D. Social responsibility.
ANSWER: A

135. __________ is concerned with the maximization of a firms earnings after taxes.
A. Shareholder wealth maximization
B. Profit maximization
C. Stakeholder maximization.
D. EPS maximization.
ANSWER: B

136. __________ is concerned with the maximization of a firms stock price.
A. Shareholder wealth maximization
B. Profit maximization
C. Stakeholder welfare maximization
D. EPS maximization
ANSWER: A

137. Shareholder wealth in a firm is represented by______________.
A. The number of people employed in the firm
B. The book value of the firm's assets less the book value of its liabilities
C. The amount of salary paid to its employees.
D. The market price per share of the firms common stock.
ANSWER: D

138. The long-run objective of financial management is to _________________.
A. Maximize earnings per share.
B. Maximize the value of the firms common stock.
C. Maximize return on investment
D. Maximize market share.
ANSWER: B

139. The market price of a share of common stock is determined by________________

A. The board of directors of the firm

B. The stock exchange on which the stock is listed.

C. The president of the company.

D. Individuals buying and selling the stock.

ANSWER: D

140. The decision function of financial management can be broken down into the decision

A. Financing and investment

B. Investment, financing, and asset management.

C. Financing and dividend.

D. Capital budgeting, cash management, and credit management.

ANSWER: B

141. This type of risk is avoidable through proper diversification_______________.

A. Portfolio risk.

B. Systematic risk.

C. Unsystematic risk.

D. Total risk.

ANSWER: A

142. .In proper capital budgeting analysis we evaluate incremental ____________.

A. Accounting income.

B. Cash flow.

C. Earnings.

D. Operating profit.

ANSWER: B

143. Which of the following would be consistent with a more aggressive approach to financing working capital?

A. Financing short-term needs with short-term funds.

B. Financing permanent inventory buildup with long-term debt.

C. Financing seasonal needs with short-term funds.

D. Financing some long-term needs with short-term funds.

ANSWER: D

144. Retained earning are ________________.

A. An indication of a companys liquidity.

B. Not important when determining dividends.

C. The same as cash in the bank

D. The cumulative earnings of the company after dividends.

ANSWER: D

145. The dividend-payout ratio is equal to _____________.

A. The dividend yield plus the capital gains yield.

B. Dividends per share divided by earnings per share

C. Dividends per share divided by par value per share.

D. Dividends per share divided by current price per share.

ANSWER: B

146. If capital is to be rationed for only the current period, a firm should probably first consider selecting projects by descending order of ___________

A. Net present value.
B. Payback period.
C. Internal rate of return.
D. Profitability index

ANSWER: D

147. The term _____________ means mathematical relationship between two figures.

A. Income.
B. Expense.
C. Profit
D. Ratio.

ANSWER: D

148. A firms degree of operating leverage (DOL) depends primarily upon its ____

A. Sales variability
B. Level of fixed operating costs.
C. Closeness to its operating break-even point.
D. Debt-to-equity ratio

ANSWER: C

149. The term capital structure refers to__________________.

A. Long-term debt, preferred stock, and common stock equity.
B. Current assets and current liabilities.
C. Total assets minus liabilities.
D. Shareholders equity.

ANSWER: A

150. The dividend-payout ratio is equal to______

A. The dividend yield plus the capital gains yield.
B. Dividends per share divided by earnings per share.
C. Dividends per share divided by par value per share.
D. Dividends per share divided by current price per share.

ANSWER: B

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