



## Dr.G.R.Damodaran College of Science

(Autonomous, affiliated to the Bharathiar University, recognized by the UGC)Re-  
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CRISL rated 'A' (TN) for MBA and MIB Programmes

III B.com(CA) (2015-2018)  
semester - V

Elective: Financial Management- 503U1.  
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. In his traditional role the finance manager is responsible for \_\_\_\_\_.  
A. arrange of utilization of funds.  
B. arrangement of financial resources.  
C. acquiring capital assets of the organization.  
D. effective management of capital.  
ANSWER: D
3. 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
4. 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
5. Future value interest factor takes \_\_\_\_\_.  
A. . Compounding rate  
B. Discounting rate.  
C. Inflation rate.  
D. Deflation rate.  
ANSWER: A

6. Present value takes \_\_\_\_\_.

- A. Compounding rate.
- B. Discounting rate.
- C. Inflation rate.
- D. Deflation rate.

ANSWER: B

7. Financial decisions involve \_\_\_\_\_.

- A. Investment, financing and dividend decisions.
- B. Investment sales decisions.
- C. Financing cash decisions.
- D. Investment dividend decisions.

ANSWER: C

8. Traditional approach confines finance function only to \_\_\_\_\_.

- A. raising
- B. mobilizing
- C. utilizing
- D. . financing

ANSWER: A

9. The companys cost of capital is called \_\_\_\_\_.

- A. Leverage rate
- B. Hurdle rate.
- C. Risk rate.
- D. Return rate.

ANSWER: A

10. Market value of the shares are decided by \_\_\_\_\_.

- A. the respective companies.
- B. the investment market.
- C. the government .
- D. share holders.

ANSWER: D

11. 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

12. Beta measures the \_\_\_\_\_.

- A. Financial risk.
- B. Investment risk rate.
- C. Market risk.
- D. Market and finance risk.

ANSWER: B

13. The expansion of CAPM is \_\_\_\_\_.

- A. Capital amount pricing model.
- B. Capital asset pricing model.
- C. Capital asset printing model.
- D. a. Capital amount printing model.

ANSWER: B

14. 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

15. The most difficult to calculate is \_\_\_\_\_.

- A. the cost of equity capital.
- B. the cost of preferred capital.
- C. the cost of retained earnings.
- D. the cost of equity and preference capital.

ANSWER: B

16. 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

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. Financial leverage measures \_\_\_\_\_.

- A. sensitivity of EBIT with respect of 1% change with respect to output
- B. 1% variation in the level of production
- C. sensitivity of EPS with respect to 1% change in level of EBIT.

D. no change with EBIT and EPS.

ANSWER: A

20. Operating leverage measures \_\_\_\_\_.

- A. the business risk.
- B. financial risk.
- C. both risks.
- D. production risk.

ANSWER: D

21. Financial leverage helps one to estimate \_\_\_\_\_.

- A. the business risk
- B. the financial risk.
- C. both risks
- D. production risk.

ANSWER: C

22. Financial leverage is also known as \_\_\_\_\_.

- A. Trading on equity
- B. Trading on debt .
- C. Interest on equity .
- D. Interest on debt.

ANSWER: A

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. . 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

26. Shares having no face value are known as \_\_\_\_\_.

- A. no par stock.
- B. at par stock.

- C. equal stock.
- D. debt equity stock.

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. Corporation is not a part of \_\_\_\_\_ finance .

- A. Public.
- B. Private.
- C. Public & private
- D. Organization.

ANSWER: C

31. \_\_\_\_\_ management is the important task of the finance manager.

- A. Debt
- B. . Equity .
- C. Profit
- D. Cash .

ANSWER: D

32. Finance function is one of the most important functions of \_\_\_\_\_.

- A. business .
- B. . marketing .
- C. financial.
- D. debt .

ANSWER: C

33. The expansion of EAR is \_\_\_\_\_.

- A. equivalent annual rate.

- B. equivalent annuity rate
- C. equally applied rate.
- D. equal advance rate

ANSWER: B

34. Arbitrage is the level processing technique introduced in \_\_\_\_\_.

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

ANSWER: A

35. 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

36. The probability of bankrupt is higher \_\_\_\_\_.

- A. for a levered firm than an unlevered firm.
- B. for a unlevered firm than an levered firm
- C. . only levered firm
- D. only unlevered firm

ANSWER: C

37. The decision to invest a substantial sum in any business venture expecting to earn a minimum return is called \_\_\_\_\_.

- A. working capital decision
- B. . an investment decision
- C. a production decision.
- D. a sales decision.

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. The gross working capital is a \_\_\_\_\_ concern concept.

- A. . Going.
- B. money measurement
- C. revenue concept.
- D. cost concept

ANSWER: B

46. The rate of return on investment \_\_\_\_\_ with the shortage of working capital

- A. falls.
- B. going.
- C. constant.

D. change.

ANSWER: A

47. 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

48. 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

49. The volume of sales is influenced by \_\_\_\_ of a firm

A. finance policy.

B. credit policy.

C. profit policy .

D. fund policy.

ANSWER: D

50. Factoring is a form of financing \_\_\_\_.

A. payable.

B. receivables.

C. borrowings.

D. debts

ANSWER: C

51. Inventory management is essential because investments in stock are \_\_\_\_.

A. high

B. low.

C. medium .

D. fixed.

ANSWER: B

52. Ordering cost is the cost of \_\_\_\_\_ materials.

A. selling.

B. purchasing.

C. stocking.

D. financing.

ANSWER: A

53. 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

54. 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

55. The most appropriate dividend policy is the payment of \_\_\_\_\_ dividend per share consent.

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

ANSWER: B

56. A company having easy access to the capital markets can follow a \_\_\_\_\_ dividend policy

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

ANSWER: C

57. \_\_\_\_\_ dividend promises to pay shareholders at future date.

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

ANSWER: B

58. \_\_\_\_\_ dividend is the usual method of paying dividend .

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

ANSWER: B

59. . 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

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. Good inventory management is good \_\_\_\_\_ management

- A. financial.
- B. marketing.
- C. stock.
- D. purchasing.

ANSWER: D

62. Setup cost is a type of \_\_\_\_\_ cost.

- A. fixed.
- B. variable.
- C. semi variable.
- D. carrying.

ANSWER: D

63. Re-order level is \_\_\_\_\_ than safety cash level .

- A. higher.
- B. lower.
- C. medium.
- D. fixed .

ANSWER: D

64. MM approach assumes that \_\_\_\_\_ markets are perfect.

- A. Receivable.
- B. Capital.
- C. Stock.
- D. Exchange .

ANSWER: D

65. The amount of the temporary working capital \_\_\_\_\_.

- A. keeps on fluctuating from time t o time.
- B. remains constant for all times
- C. financed through long term services
- D. financed short term sources .

ANSWER: C

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 notice to Accept right share should not be less than \_\_\_\_\_ days
- A. 15.
  - B. 20.
  - C. 10.
  - D. 30.

ANSWER: D

71. 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

72. 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

73. Premium received in cash is a source of \_\_\_\_\_ issue .
- A. Right.
  - B. Bonus.
  - C. Cash.

D.

ANSWER: C

74. Bonus share are not permitted unless the \_\_\_\_\_paid shares ,if any made fully paid .

- A. partly.
- B. semi.
- C. fully.
- D. not.

ANSWER: B

75. Dividend policy of a firm affects both the long time financing and \_\_\_\_\_. wealth.

- A. Owners .
- B. Creditors.
- C. Debtor
- D. Shareholders

ANSWER: C

76. \_\_\_\_\_is the distribution of the profits of a company among its shareholders

- A. Shares.
- B. Interest.
- C. Dividend.
- D. Commission .

ANSWER: C

77. 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

78. 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

79. 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

80. 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

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. . 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

83. 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

84. The factor(s) which affect(s) P/E ratio is/are \_\_\_\_\_.

- A. Growth rate
- B. Debt proportion
- C. Retention ratio
- D. All of the above.

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. 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

92. 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

93. 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

94. 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

95. 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

96. The objective of financial management is to \_\_\_\_\_.

- A. Maximize the return on investment.
- B. Minimize the risk.
- C. Maximize the wealth of the owners by increasing the value of the firm.
- D. All the above.

ANSWER: D

97. 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

98. Which of the following characteristics are true, with reference to preference capital?

- A. Preference dividend is tax deductible.
- B. The claim of preference shareholders is prior to the claim of equity shareholders.
- C. Preference share holders are not the owners of the concern.
- D. All of the above

ANSWER: D

99. What are the factors which make debentures attractive to investors?

- A. They enjoy a high order of priority in the event of liquidation.
- B. Stable rate of return.
- C. No risk.
- D. All of the above.

ANSWER: D

100. The method of raising equity capital from existing members by offering securities on pro rata basis is referred to as \_\_\_\_\_.

- A. Public issue.
- B. Bonus issue.
- C. Private placement.
- D. Bought-Out-Deal.

ANSWER: B

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. For which of the following factors are the debentures more attractive to the investors?

- A. The principal is redeemable at maturity.
- B. A debenture-holder enjoys prior claim on the assets of the company over its shareholders in the event of liquidation
- C. trustee is appointed to preserve the interest of the debenture holders.
- D. All the above.

ANSWER: D

103. If debentures are issued by a company, \_\_\_\_\_.

- A. The interest of the debentures holders is assured by SEBI.
- B. Debenture redemption reserve should be at least 75 percent of the issue amount prior to the commencement of the redemption process
- C. Call option on debentures allows the issuer to redeem the debentures at a certain price before maturity
- D. Put option on debentures allows the issuer to redeem the debentures at a certain price before maturity.

ANSWER: D

104. A company may raise capital from the primary market through \_\_\_\_\_.

- A. Public issue
- B. . Rights issue
- C. Bought out deals.
- D. All of the above.

ANSWER: D

105. 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

106. 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

107. 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

108. Cost of equity capital is \_\_\_\_\_.

- A. lesser than the cost of debt capital.
- B. equal to the last dividend paid to the equity share holders
- C. equal to the dividend expectations of equity share holders for the coming year
- D. none of the above

ANSWER: D

109. Which of the following is not a feature of an optimal capital structure?

- A. Safety.
- B. Flexibility.
- C. Control.
- D. Solvency.

ANSWER: B

110. 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

111. 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

112. The formula for cost of debt is

- A.  $k_d = (1/2 + f - p) / (f + p)$
- B.  $f + p$
- C.  $f - P$
- D.  $f \times p$

ANSWER: A

113. Which of the following is / are assumption(s) underlying the Miller and Modigliani analysis?

- A. Capital markets are perfect.
- B. Investors are assumed to be rational and behave accordingly.
- C. There is no corporate or personal income tax.
- D. All of the above.

ANSWER: D

114. Which of the following is / are assumption behind the realized yield approach?

- A. The yield earned by investors has been, on average, in conformity with their expectations.
- B. The dividends will continue growing at a constant rate forever.
- C. The market price will continue growing at a constant rate forever.
- D. Both a and b.

ANSWER: D

115. 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

116. Which of the following is/are true regarding cost of capital?

- A. It is a measure of the returns required by all the suppliers of long-term finance.
- B. It is equal to the Internal Rate of Return of a project if the projects Net Present Value is Zero.
- C. It is the weighted arithmetic average of the cost of the various sources of long-term finance used.
- D. Both b and c

ANSWER: D

117. 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

118. 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

119. 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

120. 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

121. Which of the following is/are false regarding capital structure theory as stated by Miller and Modigliani? 1) If agency costs are considered, the expected agency costs increases as the debt-equity ratio decreases. 2) With the given assumptions, there is no optimal capital structure. 3) In the presence of taxes, the market value of the firm decreases by the tax shield of debt

- A. Only 1st statement.
- B. Only 2nd statement..
- C. Both 1st and 3rd statements.
- D. All the three statements.

ANSWER: D

122. 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

123. Which of the following factors does not affect the capital structure of a company?

- A. Cost of capital.
- B. Composition of the current assets.
- C. Size of the company
- D. Expected nature of cash flows

ANSWER: B

124. 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

125. The rational expectations model of dividend policy says that \_\_\_\_\_.

- A. Since the expectations of the investors are always rational, there will be no effect of dividend policy on the valuation of the firm.
- B. If the investors have rational expectations, they will value a dividend paying firm higher than a non-dividend paying firm
- C. If the declared dividend is in line with expectations of the investors, there will be no effect on the valuation of the firm
- D. If the declared dividend is in accordance with the expectations, the change in the firms value will be minimal.

ANSWER: D

126. The Debt-Equity ratio of a Company\_\_\_\_\_.

- A. Affects its financial leverage.

- B. Does not affect the Earnings Per Share.
- C. Affects the dividend decision of the company.
- D. None of the above.

ANSWER: D

127. Dividend changes are perceived important than the absolute level of dividends because \_\_\_\_.
- A. management change dividends to protect their seats.
  - B. dividend changes have signal value for future.
  - C. MM state that absolute level of dividends is irrelevant.
  - D. changes determine the level of borrowing.

ANSWER: C

128. 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

129. Which of the following statement are true in respect of working capital?
- A. Gross Working Capital is the sum of the total current assets.
  - B. Net working capital represents the margin on working capital supported by long-term funds.
  - C. Net working capital can be negative.
  - D. All the above.

ANSWER: D

130. 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

131. 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

132. Financial management is indispensable in any organization as it helps in\_\_\_\_\_
- A. taking sound financial decisions.
  - B. proper use and allocation.
  - C. improving the profitability of funds.
  - D. all the above

ANSWER: D

133. \_\_\_\_\_ 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

134. Cost of capital is the \_\_\_\_\_ rate of return expected by the investor.

- A. maximum.
- B. average.
- C. marginal.
- D. minimum.

ANSWER: A

135. Effective cost of debentures is \_\_\_\_\_-as compared to shares.

- A. higher.
- B. lower.
- C. equal.
- D. medium.

ANSWER: C

136. Ownership securities are represented by \_\_\_\_\_.

- A. securities .
- B. equities.
- C. debt.
- D. debentures .

ANSWER: B

137. Corporation is not a part of -----finance

- A. Public.
- B. Private.
- C. Public & private.
- D. Organization.

ANSWER: D

138. 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

139. Which of the following is a basic principle of finance as it relates to the management of working capital?

- A. Profitability varies inversely with risk
- B. Liquidity moves together with risk.
- C. Profitability moves together with risk.
- D. Profitability moves together with liquidity.

ANSWER: C

140. Having defined working capital as current assets, it can be further classified according to \_\_\_\_\_.
- A. Financing method and time
  - B. rate of return and financing method
  - C. time and rate of return
  - D. components and time

ANSWER: B

141. \_\_\_\_\_ 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

142. \_\_\_\_\_ 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

143. What is the most appropriate goal of the firm?
- A. Shareholder wealth maximization.
  - B. Profit maximization.
  - C. Stakeholder maximization.
  - D. EPS maximization.

ANSWER: A

144. 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

145. 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

146. 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

147. This type of risk is avoidable through proper diversification\_\_\_\_\_.

- A. portfolio risk.
- B. systematic risk.
- C. unsystematic risk.
- D. total risk.

ANSWER: A

148. .In proper capital budgeting analysis we evaluate incremental \_\_\_\_\_.

- A. accounting income.
- B. cash flow.
- C. earnings.
- D. operating profit.

ANSWER: B

149. The term \_\_\_\_\_ means mathematical relationship between two figures.

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

ANSWER: D

150. EBIT is usually the same thing as\_\_\_\_\_

- A. funds provided by operations
- B. earnings before taxes
- C. net income
- D. operating profit.

ANSWER: D

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