

JULY:07

TIME-3 HOUR
MAX MARKS-140

SECTION - A 1 MARK EACH

- 1) Capital budgeting decision involves_____.
- a) Current assets management b) financing of alternative sources at reasonable cost
c) allocation of capital to long -term fund d) none
- 2) Cut off rate is also known as_____.
- 1) Hurdle rate 2) required rate 3) minimum rate of return 4) discounting rate
- a) 1 & 2 only b) 1,2 & 3 only c) all of above d) 4 only
- 3) Financing decision should be evaluated in term of _____&_____.
- a) rate & value b) risk & return c) profitability & risk d) none
- 4) Pay out is related to_____.
- a) Liquidity b) profitability c) return d) dividend decision
- 5) The mix of debt & capital is known as the firms _____
- a) Capital structure b) capital budgeting c) allocation of fund d) investment decision.
- 6) _____&_____are two important aspect of financial goal.
- a) Value maximization & network maximization .
b) wealth maximization& value maximization.
c) wealth maximization & profit maximization.
d) none
- 7) Arrange the following financial planning steps in correct sequence:-
- a) determination of funds needed.
b) develop procedure.
c) projection of financial statement
d) forecast the availability of funds.
e) establish & maintain control systems.
- a) a-b-c-d-e b) c-a-b-d-e c) a-c-b-e-d d) c-a-d-e-b
- 8) If the management want to have control over the firm it may raise fund from_____
- a) equity share b) debenture c) both a & b d) none
- 9) The components of capitalization are_____.
- a) par value of share capital + reserve & surplus + long term borrowed fund
b) equity share capital + preference share capital +long term borrowed fund
c) equity share capital + preference share capital +long term borrowed fund + reserve & surplus
d) retained earning
- 10) The capacity of firms to raise.Fund in capital market depends upon_____.
- a) turnover b) profit c)credibility d) growth prospect
- 11) Match different risk with their nature.
- 1) project specific risk (i) change in currency value

- 2) competition risk (ii) wrong estimation
 3) industry specific risk (iii) reduction in price by competition
 4) international risk (iv) change in technology
 5) market risk (v) change in general economic condition.

- a) 1-IV,2-III,3-II,4-I,5-V b) 1-II,2-III,3-IV,4-V,5-I
 c) 1-IV,2-III,3-V,4-II,5-I d) 1-II,2-III,3-IV,4-I,5-V

12) TRUE & FALSE:-

- 1) risk adjusted discount rate is conventional technique
 2) payback period considers the time period within which the initial investment is recovered
 3) RADR is always less than risk free rate
 4) risk premium is also known as surplus rate

- a) 1,2&3 true b) 2,3& 4 true c) 1,2 &4 true d) all true

13) Certainty equivalents coefficient approach define the relationship between _____ & _____.

- a) initial investment & net cash inflow
 b) net cash inflow & net cash outflow
 c) certain net cash flow & risky net cash inflow
 d) none

14) _____ includes the chances of occurrence of any event.

- a) Sensitivity b) probability c) certainty equivalent d) none

15) When the projects are broken up into different activity & each activity is assessed for acceptance of proposal.

- a) Sensitivity b) probability c) decision tree d) none

16) When the equity of fund is not sufficient to pay dividends to the investor is known as _____

- a) BEP b) under capitalization c) other capitalization d) optimum firm

17) Actual capitalization of the company exceeds the capitalization, warranted by the activity level is _____.

- a) over capitalization b) under capitalization c) equal capitalization d) none

18) Calculate EPS with the help of following information:-

EBIT-11,80,000
 interest- 2,20,000
 no. of share outstanding -40,000
 tax rate - 40%

- a) 24.00 b) 9.60 c) 14.40 d) none

19) The leverage of three firms are given below. Define which firm combined leverage is beneficial.

	A	B	C
Operating leverage	1.14	1.23	1.33
Financial leverage	1.27	1.3	1.33

- a) firm A b) firm B c) firm C d) firm D

20) If debenture of RS.1,00,000 discount on issue 5% expenses on issue. RS. 1,000 redeemable after 10 years interest 12% calculate kd

- a) 12% b) 13% c) 14% d) 11%

21) TRUE & FALSE:-

Which of the following causes are true for under capitalization?

- 1) high initial loss by way of preliminary expenses
 2) under estimation or wrong estimation of company earning capacity.

- 3) acquiring assets during boom phase
4) aggressive dividend policy
- a) 1 & 2 true b) 2&3 true c) 1 & 4 true d) only 2 true
- 22) Effects of over capitalization are?
- 1) fall in profit 2) encourage management to manipulate share price
3) encourage competition 4) loss of investor confidence.
- (a) 1& 4 (b) 2& 3 (c) 1,2 & 4 (d) all
- 23) Calculate the effective rate of interest if the nominal rate of interest is 12% & interest is compounded annually.
- a) 12% p.a. b) 12.50% p.a. c) 12.60% p.a. d) none
- 24) _____ refers to the periodic flows of equal amount
- a) installment b) present value c) annuity d) accumulation
- 25) The factor which is useful in determining the annual amount to be put a fund to be pay bond or debenture are:-
- a) compound b) annuity c) sinking d) none
- 26) Find out the present of an annuity of rs.10,000 over 3 years when discounted at 5%
- a) 8640 b) 27730 c) 11580 d) none
- 27) The reciprocal of the present value annuity factor is called _____
- a) Perpetuity b) capital recovery factor
c) discounting factor d) compound factor
- 28) A loan of rs. 2, 00,000 is to be paid repaid in 5 equal annual installments. if the loan carries a rate of 14% p.a. what is the amt. of each installment.
- a) 29,129 b) 58258 c) 32,127 d) none
- 29) Securities are _____ assets where as physical assets are _____ assets
- a) liquid & fixed b) current & fixed c) cash & fixed d) financial & real
- 30) If earning per share on equity is 1.5 and market value of share is rs. 15 calculate cost of capital
- a) 9% b) 10% c) 11% d) 12%
- 31) Sales rs. 2,00,000 variable cost rs. 1,40,000 fixed cost 40,000 ,10% interest on debt of rs. 1,00,000 calculate combined leverage.
- a) 4 b) 3 c) 6 d) 2
- 32) Compounding technique is
- a) Same as discounting technique
b) Slightly different from discounting technique
c) Exactly opposite to discounting technique.
d) None
- 33) ADF stand for
- a) Annual discounting factor b) annuity discount factor
c) Annually debited fund d) none
- 34) If $KD >$ coupon rate then value of bond is
- a) = face value b) < face value c) > face values d) none
- 35) TRUE & FALSE:-
- 1) Interest rate & coupon rate are synonymous terms.

- 2) Equity share have a maturity period
3) Yield on preference share can be calculated on the same pattern as for debenture

a. 1 & 3 true b. 2 & 3 true c. all true d all false

36) In single period valuation model an investor hold on equity share for_____.

- a) More than one year b) less than one year
c) one year d) none

37) Leverage means:-

- a) Gear box of car b) capital structure c) profit & loss d) effectiveness

38) State whether each of the following statement is false

- 1) cash flows of two years in absolute terms are comparable
2) compound technique & discounting technique refer to one and the same thing
3) annuity table can be used for all kind of cash flows
4) perpetuity & annuity are two different concepts
5) Incase of compounding the basic amount on where interest is received remain constant
6) If the easier to calculate the present value of on even cash inflow than calculating present value for annuity over an year.

a) 1, 2 & 5 b) 2, 3 & 4 c) 1, 2, 3, 5 & 6 d) all of the above

39) Compounded value of a sum P for n year at interest rate I can calculated by the following formula

- a) $a = p(1+i/1)^n$ b) $a = p(1+i)^n$ c) $a = p(1/i+1)^n$ d) none

40) Time preference for money prevails because

- a) goods will become dearer after a time period.
b) the worth of money in hand is more that the same amount when received after a particular time period.
c) money facilitates purchase of necessary amenities in time
d) none

SECTION - B 2 MARKS EACH

41) Multiple compounding period means:-

- a) there are number of year for which money is compounded.
b) interest is paid many times at same rate.
c) interest is compounded more that once in a year.
d) none

42) The function of financial leverage is

- a) financial arrangement
b) debt redemption
c) analysis of effect of fixed charges becausing sources of capital on profit
d) effect of equity share capital on profit.

43) Formula for operating leverage is

- a) $EBIT/EBT$ B) $E/EBIT$ C) $BEP/EBIT$ D) NONE

44) Operative leverage is effected by

- a) $EAIT/EBT$ B) $EBIT/EAT$ C) $EBIT/EBT$ D) NONE

45) FFL stand for:-

- a) fixed financial leverage b) favourable financial leverage
c) final financial leverage d) none

46) Financial leverage is not exist when

- a) capital structure contain 100% equity b) when ROI
c) capital structure contain 100% debenture d) none

47) Trading on equity means

- a) less equity share & more long term loan in capital structure
- b) more equity & less long term loan.
- c) both are equal
- d) none

48) If operating leverage of firm is 2, it shows :-

- a) profit increase equal proportion to sales.
- b) profit decrease equal proportion to sales.
- c) increase/ decrease in profit double to sales.
- d) none

49) Arrange those security from minimum risk to highest risk

1) government bonds 2) debenture 3) preference share 4) equity share

- a) 1-2-3-4 b) 2-1-3-4 c) 1-3-2-4 d) 1-2-4-3

50) Which of the following assumption is not considered under CAPM model.

- a) investors are risk averse.
- b) investors make their investment decision on a multiple period basis.
- c) transaction costs are low
- d) only b & c

51) In CAPM model cost of capital is calculated

- a) $k_e = r_m + b(r_f - r_m)$ b) $k_e = r_f + b(r_m - r_f)$ c) $k_e = r_f + b(r_f - r_m)$ d) none

52) Cost of capital comprises both business & _____ risk

- a) financial b) market c) technology d) all

53) Cost of capital serves as _____ rate. For capital investment decision.

- a) minimum rate b) cut off c) discounting rate d) none

54) State whether each of the following statements are true & false.

- 1) the cost of capital is the minimum rate of return that will maintain the value of a firm equity share.
- 2) for financial decision making relevant costs are the historical costs.
- 3) Composite cost is inclusive of all costs of capital from all sources.
- 4) retained earnings have no cost to the firm.

- a) 1 & 3 true b) 1 & 4 true c) 1 & 2 true d) all true

55) The capital structure decision includes debt equity mix & _____ decision.

- a) investment b) dividend c) financing d) none

56) Optimum debt equity ratio for manufacturing concerns is:-

- a) 2:1 b) 3:1 c) 1:2 d) 1.5:1

57) State whether each of the following statements are true & false.

- 1) the term capital structure includes also the financial structure
- 2) the optimum capital structure is obtained when the market value per equity share is maximum
- 3) net income approach & net operating income approach are synonymous terms.
- 4) according to MM approach the value of a firm is affected by the debt equity mix.
- 5) the traditional approach is a midway approach between net income approach & net operating income approach.

- a) all true b) all false c) 2 & 5 true d) 1,2,5 are true

58) MM approach is similar to _____ approach.

- a) net income approach b) net operating income approach
c) both a & b d) none

59) Match different project approval with their aspect.

SET I SET II

i. market appraisal ii. Technical appraisal iii. Financial appraisal iv. Economic appraisal 1.2.3.4. appropriate plant design & layout projected income & expenses substitute analysis contribution towards reducing the unemployment problem.

- a) 1-iii,2-I,3-ii,4-iv b) 1-i,2-ii,3-iii,4-iv c) 1-iii,2-iv,3-ii,4-i

60) While evaluating capital investment proposal, the time value of money is consider incase of:-

- a) Payback period b) IPR c) APR d) present value index method

61) Depreciation is included in cost incase of:-

- a) Payback period b) APR c) IPR d) present value index method.

62) Project acceptance criterion though PI is

- a) $PI > 1$ b) $PI < 1$ c) $P = 1$ d) $PI = 8$

63) Plant are _____ assets. where as patene are _____

- a) cash assets & capital assets.
b) capital assets & physical assets.
c) intangible assets & physical assets.
d) tangible & intangible assets.

64) Short term loan & advances is _____

- a) current assets b) current liability c) fixed assets d) fixed liability

65) The firm ability to meet its short term obligation is depend on _____

- a) current assets b) fixed assets c) liquid assets d) all

66) Net operating cycle is known as:-

- a) cash management cycle b) cash conversation cycle c) operating cycle.

67) Sum of raw material storage period to average collection period cycle is _____

- a) net operating cycle b) gross operating cycle
c) operating cycle d) combined cycle.

68) The minimum investment in the form of operating cycle is _____.

- a) variable working capital b) temporary working capital
c) permanent working capital d) none

69) The upward swing in the economy _____

- a) increase the W.C.R. b) decrease working capital requirement
c) constant W.C.R. d) none

70) Following statement are true/ false

- a) Policy of the firm effect the working capital requirement
b) Manufacturing concern working capital requirement is greater than trading concern
c) Operational efficiency of a firm is also effect to working capital requirement.
d) Electricity generation W.C.R. is less than hotels sector

- a) All true b) all false c) a,b,& c true d) b&c true

71) Cash management is concerned with

- a) management of cash inflow & outflow both
- b) management of cash balance held by the firm
- c) only a
- b) both a & b

72) Match the following:-

A B

1.2.3.4. transaction motive precautionary motives speculative motive compensating motive 1.2.3.4. To meet routine expenses Unforeseen Fluctuation Unexpected changes in business scenario Maintain minimum balance to attain services.

- a) 1-iv,2-I,3-iii,4-ii b) 1-i,2-iii,3-ii,4-iv c) 1-i,2-ii,3-iv,4-iii d) 1-i, 2-ii,3-iii,4-iv

73) When cheques are deposited into bank but not cleared is _____.

- a) collection float b) free float c) payment float d) none

74) When the balance in the firm book is less than the bank book is known as _____

- a) net float is positive b) net float is negative c) constant float d) none

75) Forecasting are based on the _____ & _____

- a) past & present event b) past & past event
- c) past & future event d) future & future event

76) The first element of a cash budget is _____

- a) time horizon b) planning horizon c) scheduling d) all

77) When raw material are purchased on credit & used to produced finished goods the lag is known as:-

- a) storage lag b) creation lag c) sale lag d) time lag

78) Successful inventory management make a trade off between _____ & _____ level of inventory.

- a) high & low b) good & bad c) quantity & quality d) all

79) Abc analysis related with _____

- a) Cash management b) time management
- c) production management d) inventory management.

80) In ABC analysis a group requires _____ control

- a) Intensive b) simple c) reasonable d) can't say

81) ABC is also known as _____

- a) Value analysis b) proportional value analysis c) variance analysis d) none

82) The formula for EOQ mode is _____

- a) $2AS/C$ b) $2AQ/C$ c) $2as/c$ d) $2aq/c$

83) Maintenance of minimum additional inventory to meet unanticipated need or demand is known as _____

- a) Minimum stock b) recorder level c) safety stock d) none

84) In _____ method last received consignment is issued first

- a) FIFO b) LIFO c) weighted average d) standard price

85) _____ is a marketing tool that tries to bridge the gap between production & distribution of company product.

a) Cash credit b) trade credit c) bank credit d) all

86) Additional cost in credit sales in form of reminder legal charge etc. are_____.

a) Capital cost b) collection cost c) delinquency cost d) default cost

87) The quantitative basis for setting credit standard are_____

a) Average payment period b) ratio analysis c) credit rating d) all

88) In traditional dividend approach, D.L. Dodd & B.Graham define the clear relationship between_____ & _____.

a) Dividend & profit b) growth & retained earning
c) dividend retained earning d) dividend & stock market.

89) In Walter model, if $r < k$ the firm should have

a) 100% payout ratio b) zero payout ratio c) zero to 100% payout d) none

90) In Walter model formula used to determine the market price of share is _____

a) $P = \frac{m(D+E/3)}{ke}$ b) $P = \frac{D}{ke} + \frac{u(E-D)}{ke}$ / ke
c) $P = \frac{E(1-b)}{ke-br}$ d) $P = \frac{D(1-b)}{ke-br}$

91) A bond with a face value of rs. 100 provide an annual return of 8% and pays rs. 125 at the maturity which is 10 yr. from now. If the investors required return is 12% what should be the price of the bond

a)43.38 b) 80.45 c) 40.25 d) 85.45

92) The bond of silicon enterprises with a par value of rs.500 is currently traded at rs. 435. The coupon rate is 12% be the yield to maturity.

a) 15% approx b) 16% approx c) 17% approx d) 14% approx

93) Sales 2, 00,000, variable cost rs.1, 40,000
Fixed cost 40,000 calculate operating leverage

A) 5 b) 3 c) 2 d) 2.5

94) A company has issued 6% debenture of rs. 100 each at a discount of 10% repayable after 10 years calculate cost of debenture capital:-

a) 6% b) 6.33% c) 7.37% d) 7%

95) Given:- 10% preference share of rs. 100, issued at par value, issue expenses rs. 2, calculate cost of preference share capital after tax will be:-

a)10.2% b) 10% c) 20% d) 20.4%

96) Calculate EOQ:- Annual consumption raw material 40,000 unit cost per unit rs.16, carrying cost is 15% p.a. cost of placing an order rs.480

a)2000 units b) 3000 units c) 4000 units d) 4500 units

97) If cost of preference share capital is 7.5% & tax rate are not applicable then ROI is

a) Double to preference capital rate b) equal to preference capital rate
c) half of the preference capital rate d) all are correct.