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FMBDA

MCQ – ALL PAST PAPERS

CHAPTER - 1 FUNDAMENTALS OF FINANCIAL MANAGEMENT

1. Ascertain the future value of annuity of ₹25,000 at the end of 6 years at 9% p.a. compounded annually. Assume that the amount is deposited at the beginning of every year.
- (A) ₹2,05,025
(B) ₹2,00,000
(C) ₹2,50,000
(D) ₹2,05,000

Ans. (A) ₹2,05,025

Working Note:

Future value of annuity = Amount of annuity $\times$ Cumulative future value of ₹1 for six years. = ₹25,000 $\times$ 8,201 = ₹2,05,025.

2. Mr. X expects to receive ₹2,00,000 at the end of three years. What would be the present value if the rate of discount is 10%?
- (A) ₹1,50,000
(B) ₹1,50,260
(C) ₹1,50,200
(D) ₹2,00,000

Ans. (B) ₹1,50,260

Working Note:

Present value factor for 3 years at 10% is 0.7513

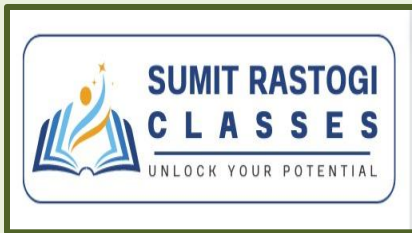
Present value = 2,00,000 $\times$ 0.7513 = ₹1,50,260.

3. B's cash flows are ₹1,000 on 1-7-2014; ₹1,100 on 1-7-2016; ₹1,000 on 1-7-2018; considering annual rests, interest rate of 10% and using P.V. factor only up to one decimal, calculate the present value of his cash flows as on 1-7-2016.
- (A) ₹5,100
(B) ₹4,100
(C) ₹3,100
(D) ₹1,100

Ans. (C) ₹3,100

Working Note:

P.V. on 1.7.2016 = ₹ [(1.2 $\times$ 1,000) + (0.8 $\times$ 1,000) + (1 $\times$ 1,100)] = ₹3,100



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4. The risk-free rate of return is 10%, market rate of return is 12.25% and beta (β) = 1.25. Find the cost of equity using CAPM method.
- (A) 12.813%
(B) 12.800%
(C) 12.815%
(D) 12.810%

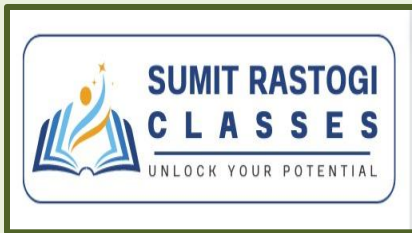
Ans. (A) 12.813%

Working Note:

$$K_e = R_f + \beta (R_m - R_f) = 10\% + 1.25 \times 2.25\% = 10 + 2.813 = 12.813\%$$

5. Which of the following is the main objective of financial management?
- (A) Revenue Maximisation
(B) Profit Maximisation
(C) Wealth Maximisation
(D) Cost Minimisation
- Ans. (C) Wealth Maximisation
6. Which one of the following activities is outside the purview of financing decision in financial management?
- (A) Identification of the source of funds
(B) Measurement of the cost of funds
(C) Deciding on the time of raising the funds
(D) Deciding on the utilization of the funds.
- Ans. (D) Deciding on the utilization of the funds
7. Which one of the following activities is outside the purview of dividend decision in financial management?
- (A) Identification of the profit after taxes
(B) Measurement of the cost of funds
(C) Deciding on the pay-out ratio
(D) Considering issue of bonus shares to equity shareholders.
- Ans. (B) Measurement of the cost of funds
8. "Shareholders' wealth" in a firm is reflected 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 firm.

Ans. (D) the market price per share of the firm.



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9. Objective of Financial Management is:

- (A) Management of Liquidity
- (B) Maximization of Profit
- (C) Maximization of Shareholders' Wealth
- (D) Management of Fixed Assets.

Ans. (C) Maximization of Shareholders' Wealth

10. β (Beta) of a security measure its:

- (A) Divisible Risk
- (B) Financial Risk
- (C) Market Risk
- (D) None of the above.

Ans. (C) Market Risk

11. Calculate the Risk-Free rate of return if the value of beta (β) is 1.5, Market return = 13% and Cost of Equity = 16%.

- (A) 5.5%
- (B) 6.25%
- (C) 6.75%
- (D) 7%

Ans. (D) 7%

Working Note:

$$K_e = R_f + \text{Beta} [R_m - R_f]$$

$$16 = R_f + 1.5 [13 - R_f]$$

$$16 = R_f + 19.5 - 1.5 R_f$$

$$0.5 R_f = 3.5$$

$$R_f = 7\%$$

12. What will be the present value of a perpetuity of ₹10,000 payable at the beginning of each period and growing @5% p.a. and the interest rate is 10% p.a.?

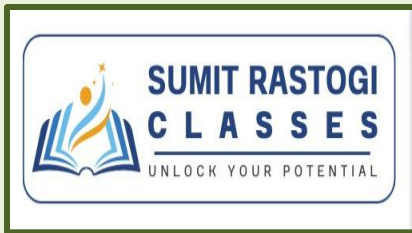
- (A) ₹2,00,000
- (B) ₹2,10,000
- (C) ₹2,20,000
- (D) ₹2,30,000

Ans. (B) ₹2,10,000

Working Note:

$$\text{Present Value of Year end Perpetuity with Growth} = \frac{\text{Perpetuity}}{(\text{Interest rate} - \text{growth Rate})} = \frac{10,000}{(0.10 - 0.05)} = \text{₹2,00,000}$$

$$\text{Present Value of Perpetuity at the beginning of each year} = 2,00,000 + 10,000 = \text{₹2,10,000}$$



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13. Compute the beta of Security X from the following information:

Standard Deviation of Security X	15%
Standard Deviation of Market Portfolio	12%
Regression Coefficient between returns of Security X and Market Portfolio	0.80

- (A) 1.00
- (B) 1.25
- (C) 0.80
- (D) 1.50

Ans. (A) 1.00

Working Note:

$$\text{Beta} = 0.80 \times 15/12 = 1.00$$

14. _____ is annual growth of Investment over a specific period of time.

- (A) Perpetuity
- (B) CAGR
- (C) Annuity
- (D) None of the above

Ans. (B) CAGR

15. How long it will take for ₹1,00,000 to double at a compound rate of interest of 12% per annum approximately?

- (A) Five Years
- (B) Six Years
- (C) Seven Years
- (D) Eight Years

Ans. (B) Six Years

16. A firm determines the shareholders' wealth by taking

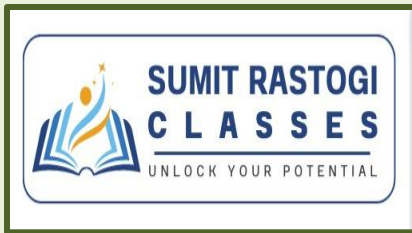
- (A) The number of people employed in the firm.
- (B) The book value of the firm's assets less the book value of its liabilities
- (C) The amount of salary paid to its employees
- (D) The market price per share of the firm

Ans. (D) The market price per share of the firm

17. MNC Consciously manipulate the transfer Price as an instrument maximizing achievement of

- (A) Investors' Goals
- (B) Divisional Goals
- (C) Managers' Goals
- (D) Corporate Goals

Ans. (D) Corporate Goals



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18. Which of the following is not an unsystematic Risk?

- (A) Business Risk
- (B) Financial Risk
- (C) Default Risk
- (D) Market Risk

Ans. (D) Market Risk

19. Jai as an investor expects a perpetual sum of ₹10,000 annually from his investment. What is the present value of perpetuity if interest rate is 15%?

- (A) ₹66,667
- (B) ₹6,667
- (C) ₹66,676
- (D) ₹76,676

Ans. (A) ₹66,667

20. P Ltd. has earned 9% return on total assets of ₹50,00,000 and has a net profit ratio of 5%. The sales of the firm is_____.

- (A) ₹4,00,000
- (B) ₹2,50,000
- (C) ₹90,00,000
- (D) ₹83,33,333

Ans. (C) ₹90,00,000

21. "Shareholders' Wealth" of a company is represented by

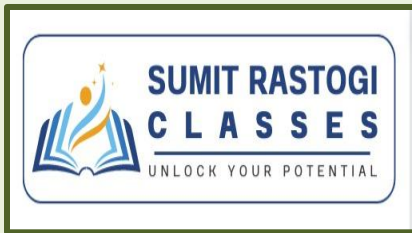
- (A) The number of equity shares held by the shareholders of the company
- (B) The number of equity shares owned multiplied by the current market price per equity share
- (C) The amount of dividend paid to the shareholders.
- (D) The amount price per share of the company on the last day of each month

Ans. (B) The number of equity shares owned multiplied by the current market price per equity share

22. According to Horne and Wachowicz the greater the variability in returns, the security is said to be_____.

- (A) safe
- (B) liquid
- (C) riskier
- (D) default

Ans. (C) riskier



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23. If the nominal rate of interest is 12 per cent per annum and frequency of compounding is 4 i.e. quarterly compounding, the effective rate of interest will be _____.

- (A) 12.55 p.a.
- (B) 12.75% p.a.
- (C) 12.95% p.a.
- (D) 13.05% p.a.

Ans. (A) 12.55 p.a.

24. Which of the following is not a systematic risk?

- (A) Market risk
- (B) Interest rate risk
- (C) Purchasing power risk
- (D) Business risk

Ans. (D) Business risk

25. The sensitivity of a security to market movement is measured by

- (A) Standard Deviation
- (B) Co-efficient of variation
- (C) Beta
- (D) Alfa

Ans. (C) Beta

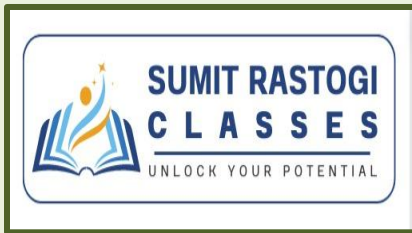
26. How much amount should an investor invest now in order to receive five annuities starting from the end of this year of ₹15,000 if the rate of interest offered by bank is 12% per annum? [PVIFA (12%, 5 yrs.) = 3.6048]

- (A) ₹54,072
- (B) ₹45,025
- (C) ₹37,910
- (D) None of the above

Ans. (A) ₹54,072

Working Note:

$$\begin{aligned} &\text{Investment PVIFA} \times \text{Annuity} \\ &= 3.6048 \times 15,000 = \text{₹}54,072 \end{aligned}$$



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CHAPTER – 2 INSTITUTIONS & INSTRUMENTS in FINANCIAL MARKETS

1. In India, commercial papers can be issued in multiples of ₹_____.
- (A) 5 Lakhs
 - (B) 4 Lakhs
 - (C) 6 Lakhs
 - (D) 2 Lakhs

Ans. (A) 5 lakhs

2. Which of the following forms of equity financing is especially designed for funding High Risk & High Reward projects?
- (A) ADR
 - (B) GDR
 - (C) FCCB
 - (D) Venture Capital.

Ans. (D) Venture Capital

3. During the Book Building process, if the floor of the Price Band is ₹150 then the cap of the Price Band can at maximum be:
- (A) 175
 - (B) 180
 - (C) 200
 - (D) 225

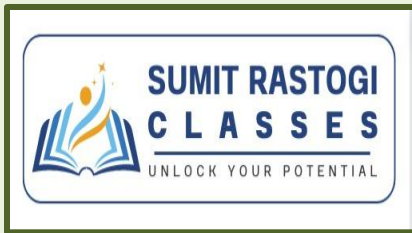
Ans. (B) 180

Working Note:

Maximum Cap Price = 120% x Floor Price, $120\% \times 150 = ₹180$.

4. The RBI offers 91 Days Treasury Bills. X makes a bid at ₹ 98.93. Calculate the Yield to Price at the bid made by X.
- (A) 4.3382%
 - (B) 4.2918%
 - (C) 1.0700%
 - (D) 1.0816%

Ans. (A) 4.3382%



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5. Correlation Coefficient of Portfolio with market 0.8, Variance of Market Portfolio is 4/9th of Variance of Security, Cost of Equity 20%, Average Return on Market Portfolio 17.5%. Calculate the Risk-Free Rate of Interest on Govt. Treasury Bonds.

(A) 4%
(B) 5%
(C) 9%
(D) 6%

Ans. (B) 5%

Working Note:

Variance of Market = $\frac{4}{9} \times$ variance of Security

Std. Deviation of Market = $\frac{2}{3} \times$ Std. Of Security

Std. Deviation of Security/Std. Deviation Of Market = $\frac{3}{2}$

Beta = $0.80 \times \frac{3}{2} = 1.2$

$K_e = R_f + \text{Beta} (R_m - R_f)$

$20 = R_f + 1.2 (17.5 - R_f)$

$20 = R_f + 21 - 1.2 R_f$

$-1 = -0.2 R_f$

$R_f = 5\%$

6. OASIS committee has given recommendation in the area of _____.

(A) Pension Policy
(B) Hedge Funds
(C) Private Equity Funds
(D) Venture Capital

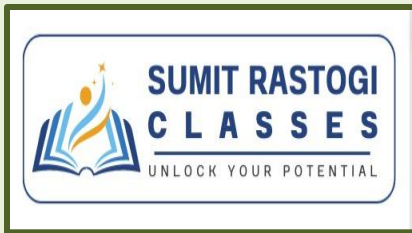
Ans. (A) Pension Policy

Reason: OASIS committee has recommended two major pension reforms for the government employees and the unorganized sector.

7. Selling shares without owing them, to buy them back at a future date at a lower price in expectation that price will drop is known as _____.

(A) Call Option
(B) Put Option
(C) Long Position
(D) Selling Short

Ans. (D) Selling Short



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8. A 91-day Treasury Bill with face value of ₹100 is issued at ₹98. The annualized yield on the same would be _____. (Assume 365 days a year)
- (A) 3.09%
(B) 8.18%
(C) 14.09%
(D) 13.09%

Ans. (B) 8.18%

9. _____ is a financial instrument whose value depends on the values of basic underlying variables.
- (A) Derivatives
(B) GDR
(C) ECB
(D) FCCB

Ans. (A) Derivatives

10. Algorithmic Trading is also known as
- (A) Reinforcement Learning
(B) Anomaly Detection
(C) Fraud Detection
(D) Electronic DP

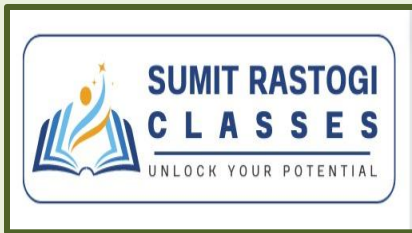
Ans. (D) Electronic DP

11. A commercial paper of the face value of ₹10,00,000 is issued at ₹9,60,000 for a maturity period of 120 days. The annual financing cost of the commercial paper is _____.
- (A) 25%
(B) 14.5%
(C) 12.7%
(D) 4%

Ans. (C) 12.7%

12. Which one of the following is not a feature of Certificate of Deposits?
- (A) The minimum lock-in period for CDs is 30 days
(B) The minimum issue size of CDs is ₹1,00,000
(C) CDs are transferable by endorsement and delivery
(D) CDs attract stamp duty as applicable to negotiable instruments

Ans. (A) The minimum lock-in period for CDs is 30 days/ (B) The minimum issue size of CDs are ₹1,00,000



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13. What is the key characteristic of commercial paper?

- (A) Issued by Individuals
- (B) Unsecured, short-term debt instrument
- (C) Backed by collateral
- (D) Issued for more than 5 Years

Ans. (B) Unsecured, short-term debt instrument

14. GDRs (Global Depository Receipts) are issued to

- (A) Foreign banks as a security to raise foreign currency loans
- (B) Persons of Indian origin residing in a foreign country
- (C) Indian investors who want to subscribe to IPOs of foreign companies
- (D) Non-resident investors against publicly traded shares of the issuing companies and denominated in dollars

Ans. (D) Non-resident investors against publicly traded shares of the issuing companies and denominated in dollars.

15. _____ refers to the use of instruments under the control of central bank to regulate the availability, cost and use of money and credit.

- (A) Fiscal Policy
- (B) Monetary Policy
- (C) Credit Policy
- (D) Banking Regulation

Ans. (B) Monetary Policy

16. _____ is a price discovery mechanism and is becoming increasingly popular as a method of issuing capital.

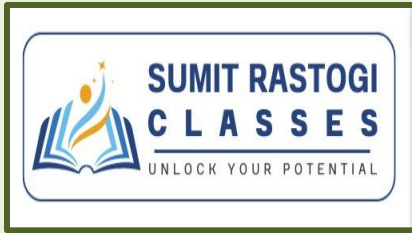
- (A) Green shoe option
- (B) Offer for sale
- (C) Employee stock option
- (D) Book building

Ans.(D) Book building

17. The Reserve Bank of India sold a 91day T-Bill of face value ₹100 at a yield of 7%. The issue price is therefore_____.

- (A) ₹98.00
- (B) ₹98.08
- (C) ₹98.48
- (D) ₹98.28

Ans. (D) ₹98.28



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Working Note:

$$\text{Yield} = [(100 - \text{issue Price}) \times 100 / \text{Issue Price}] \times 365 / 91$$

$$7 = [(100 - \text{IP}) \times 100 / \text{IP}] \times 365 / 91$$

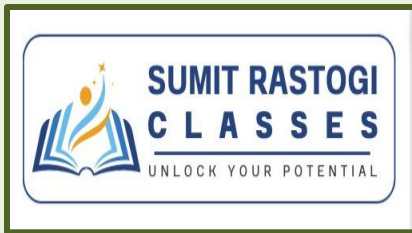
$$1.7452 [(100 - \text{IP}) \times 100 / \text{IP}]$$

$$\text{IP} 57.30 (100 - \text{IP})$$

$$\text{IP} - 5730 - 57.30 \text{ IP}$$

$$58.30 \text{ IP} 5730$$

$$\text{IP} = \text{₹}98.28$$



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CHAPTER – 3 TOOLS FOR FINANCIAL ANALYSIS

1. In 2011-12, XYZ Pharma Ltd. had a profit margin of 20% and asset turnover of 3 times. At the end of year 2012-13, the profit margin decreases by 5% and asset turnover increased to 4 times. The return on investment for 2012-13 will be:
- (A) 80%
(B) 60%
(C) 50%
(D) 70%

Ans. (B) 60%

Working Note:

Revised Net Profit Ratio = $20 - 5 = 15\%$

Revised asset turnover Ratio = 4 times.

Hence, ROI = $15\% \times 4 = 60\%$.

2. The proprietor's fund is ₹45,00,000 and ratio of fixed assets to proprietor's funds is 0.75. Find the amount of net working capital.
- (A) ₹33,75,000
(B) ₹45,00,000
(C) ₹11,25,000
(D) ₹11,20,000

Ans. (C) ₹11,25,000

Working Note:

Fixed Assets = $0.75 \times 45,00,000 = ₹33,75,000$.

= Net Current Assets = Proprietors Funds - Fixed Assets

= $45,00,000 - 33,75,000 = ₹11,25,000$ (Net Working Capital = Net Current Assets).

3. Average collection period is 2 months, Cash sales and average receivables are ₹5,00,000 and ₹6,50,000 respectively. Find Total Sales.
- (A) ₹39,00,000
(B) ₹44,00,000
(C) ₹11,50,000
(D) ₹12,00,000

Ans. (B) ₹44,00,000

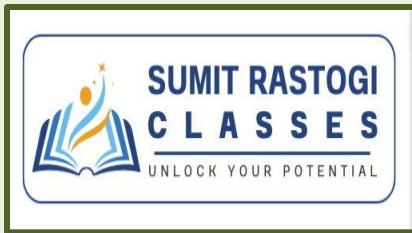
Working Note:

Avg. Collection Period = $\text{Avg. Receivables} \times 12 / \text{Net credit sales}$

$2 = 6,50,000 \times 12 / \text{Net credit sales}$

Net credit sales = $(6,50,000 \times 12) / 2 = ₹39,00,000$

Total Sales = Cash + Credit = $5,00,000 + 39,00,000 = ₹44,00,000$



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4. Determine which company is more profitable

	A. Ltd.	B. Ltd.
Net Profit ratio	5%	8 %
Turnover ratio	6 Times	3 times
(A) 30%; 24%		
(B) 40%; 25%		
(C) 60%; 30%		
(D) 24%; 30%		

Ans. (A) 30%; 24%

Working Note:

Company A is more profitable as it has higher return on capital ($5 \times 6 = 30\%$).
Company B has lower return on capital ($8 \times 3 = 24\%$).

5. If current ratio is 2.4: 1 and working capital is ₹25,20,000, find the amount of current assets and current liabilities.

- (A) CL - ₹18,00,000; CA - ₹43,20,000
(B) CL - ₹15,00,000; CA - ₹42,20,000
(C) CL - ₹43,20,000; CA - ₹18,00,000
(D) CL - ₹18,00,000; CA - ₹25,20,000

Ans. (A) CL - ₹18,00,000, CA - ₹43,20,000

Working Note:

Let, Current liability be 'x' and Current assets be 2.4x
Then, Working capital = $2.4x - x = ₹25,20,000$
X (Current liabilities) = $₹25,20,000 / 1.4 = ₹18,00,000$
Current Assets = $18,00,000 \times 2.4 = ₹43,20,000$.

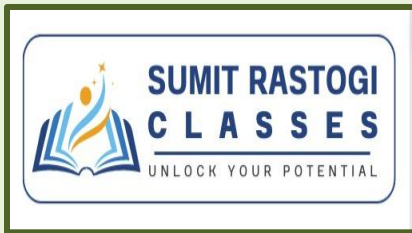
6. A firm has a capital of ₹10 lakhs, sales of ₹5 lakhs, gross profit of ₹2 lakhs and expenses of ₹1 lakh. The Net Profit Ratio is:

- (A) 50%
(B) 40%
(C) 20%
(D) 10%

Ans. (C) 20%

Working Note:

Net Profit = $2,00,000 - 1,00,000 = ₹1,00,000$
Net Profit ratio = $1,00,000 \times 100 / 5,00,000 = 20\%$



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7. In Net Profit Ratio, the denominator is:

- (A) Credit Sales
- (B) Net Sales
- (C) Cost of Sales
- (D) Cost of Goods Sold

Ans. (B) Net Sales

8. If current ratio is 2.4: 1, and net working capital is ₹42,000, find out the value of current assets and current liabilities.

- (A) ₹72,000
- (B) ₹42,000
- (C) ₹30,000
- (D) ₹60,000

Ans. (A) ₹72,000

Working Note:

Current Assets - Current Liabilities = Working Capital

$$2.4x - x = ₹42,000$$

$$1.4x = ₹42,000; x = ₹30,000$$

So, Current Liabilities = ₹30,000 and

Current Assets = ₹30,000 × 2.4 = ₹72,000

9. ROI (Return on Investment) can be decomposed into the following ratios:

- (A) Overall Turnover Ratio and Current Ratio
- (B) Net Profit Ratio and Fixed Assets Turnover
- (C) Working Capital Turnover Ratio and Net Profit Ratio
- (D) Net Profit Ratio and Overall Turnover Ratio

Ans. (D) Net Profit Ratio and Overall Turnover Ratio

10. Which of the following does not help to increase Current Ratio?

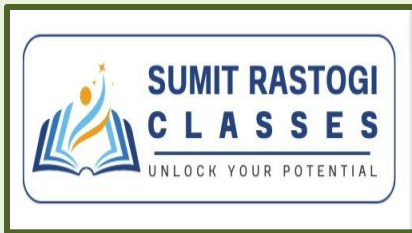
- (A) Issue of Debentures to buy Stock
- (B) Issue of Debentures to pay Creditors
- (C) Sale of Investment to pay Creditors
- (D) Avail Bank Overdraft to buy Machine

Ans. (D) Avail Bank Overdraft to buy Machine

11. Which of the following statements is correct?

- (A) A higher Receivable Turnover is not desirable.
- (B) Interest Coverage Ratio depends upon Tax Rate.
- (C) Increase in Net Profit Ratio means increase in Sales.
- (D) Lower Debt-Equity Ratio means lower Financial Risk.

Ans. (D) Lower Debt-Equity Ratio means lower Financial Risk



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12. The excess of Current Assets over Current Liabilities is called:

- (A) Net Current Assets
- (B) Net Working Capital
- (C) Working Capital
- (D) All of the above.

Ans. (D) All of the above

13. Which of the following is a Profitability Ratio?

- (A) Proprietary Ratio
- (B) Debt-Equity Ratio
- (C) Price Earnings Ratio
- (D) Fixed Asset Ratio

Ans. (C) Price-Earnings Ratio

14. Ratio Analysis can be used to study liquidity, turnover, profitability etc., of a firm. What does Debt-Equity Ratio help to study?

- (A) Solvency
- (B) Liquidity
- (C) Profitability
- (D) Turnover.

Ans. (A) Solvency

15. Profitability and Liquidity ratios are used for:

- (A) Normative purposes only
- (B) Predictive purposes only
- (C) Both Normative and Predictive purposes
- (D) None of these.

Ans. (C) Both Normative and Predictive purposes

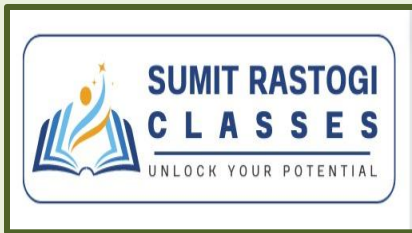
16. The total Asset - turnover ratio and total Asset to net-worth of GIN Ltd. are 1.80 and 2.50 respectively. If the net-profit margin of the company is 8%. What will be its Return on Equity (ROE)?

- (A) 8%
- (B) 36%
- (C) 25%
- (D) 15%

Ans. (B) 36%

Working Note:

$$\begin{aligned}\text{ROE} &= \text{Total Asset Turnover} \times \text{Total Assets to Net Worth} \times \text{Net Profit Margin} \\ &= 1.80 \times 2.50 \times 8\% = 36\%\end{aligned}$$



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17. From the given information, calculate Altman's Z score:

Current Assets	₹10,00,000
Current Liabilities	₹2,00,000
EBIT	₹1,00,000
Sales	₹4,00,000
Retained Earnings	₹2,00,000
Total Assets	₹20,00,000
Total Debts	₹5,00,000
Market Value of Equity	₹25,00,000

- (A) 4.125
(B) 3.985
(C) 3.725
(D) 3.125

Ans. (B) 3.985

Working Note:

$$X1 = (10,00,000 - 2,00,000) / 20,00,000 = 0.40$$

$$X2 = 2,00,000 / 20,00,000 = 0.10$$

$$X3 = 1,00,000 / 20,00,000 = 0.05$$

$$X4 = 25,00,000 / 5,00,000 = 5$$

$$X5 = 4,00,000 / 20,00,000 = 0.20$$

$$Z = 1.2 \times 0.40 + 1.4 \times 0.10 + 3.3 \times 0.05 + 0.6 \times 5 + 1 \times 0.20 = 3.985$$

18. Assume that the company's existing Acid-Test Ratio is 2:1. On Purchase of treasury bills of 1,00,000, Acid-Test Ratio will be _____.

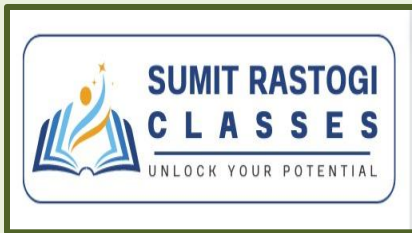
- (A) 3:1
(B) 1:1
(C) 2:1
(D) 1:2

Ans. (C) 2:1

19. Funds required ₹10,00,000 to be arranged by the issue of 30% Equity Shares of ₹10 each to be issued at ₹20, 60% in 10% Debt and Balance by 15% Preference Shares, Tax Rate: 25% Return on Investment (ROI) is 30%, Return on Equity Shareholders Funds (ROE) will be:

- (A) 46.875%
(B) 47.50%
(C) 55%
(D) 60%

Ans. (C) 55%



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Working Notes:

- (1) **Equity Shareholders Fund** = $30\% \times 10,00,000 = ₹3,00,000$
Debt Funds = $60\% \times 10,00,000 = ₹6,00,000$
Preference Share Capital = $10\% \times 10,00,000 = ₹1,00,000$

- (2) **ROI** = $\text{EBIT} \times 100 / \text{Capital Employed}$
 $30 = \text{EBIT} \times 100 / 10,00,000$
 $\text{EBIT} = ₹3,00,000$

- (3) **Statement of Earnings Available to Equity Shareholders**

Particular	Amount (₹)
Earnings Before Interest and Tax (EBIT)	3,00,000
- Interest ($6,00,000 \times 10\%$)	(60,000)
Earnings before tax	2,40,000
- Tax ($25\% \times 2,40,000$)	(60,000)
Earnings after tax	1,80,000
- Preference Dividend ($1,00,000 \times 15\%$)	(15,000)
Earnings available to Equity shareholders	1,65,000

$\text{ROE} = 1,65,000 \times 100 / 3,00,000 = 55\%$

20. The balances of the Plant and M/c of A Ltd., on 31-3-2014 and 31.03.2013 were respectively ₹1,00,000 and ₹40,000. A machine with opening w.d.v ₹6000 was sold for ₹5000 during the year 2013-14. Depreciation of ₹5,000 was charged during the year. Find the amount that will feature as 'application of funds' in the Fund Flow Statement.

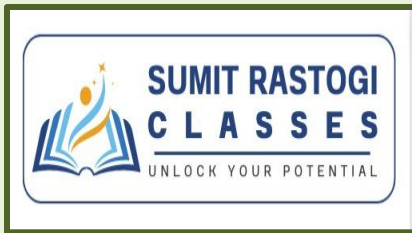
- (A) ₹59,000
 (B) ₹65,000
 (C) ₹71,000
 (D) ₹76,000

Ans. (C) ₹71,000

Plant & Machinery Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	40,000	By Bank A/c	5,000
To Bank (Purchases) (B/F)	71,000	By Profit & Loss A/c	1,000
		By Depreciation A/c	5,000
		By Balance c/d	1,00,000
	1,11,000		1,11,000

Amount shown as Application of Funds ₹71,000



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21. Will the following items feature in the cash flow statements as per AS-3? If so, state the category under which the item will be shown:

- (A) Cash paid to develop self-constructed fixed asset.
- (B) Acquisition of another entity by issue of shares.
- (C) Conversion of debt to equity.

Ans.

- (i) Cash paid to develop self-constructed asset - Included as 'cash from investing activity' under AS-3.
- (ii) Acquisition of another entity by issue of shares - Non cash transaction. Hence, does not feature in the Cash flow statement as per AS-3.
- (iii) Conversion of debt to equity - Non cash transaction. Hence, does not feature in the Cash flow statement as per AS-3.

22. A chemical company has a Net Sale of ₹50 crores, cash expenses (including taxes) of ₹35 crores, and depreciation of ₹5 crores. If debtors decrease over the period by 6 crores, what will be the cash from operations?

- (A) ₹15 crores
- (B) ₹16 crores
- (C) ₹21 crores
- (D) ₹26 crores

Ans. (C) ₹21 crores

Working Note:

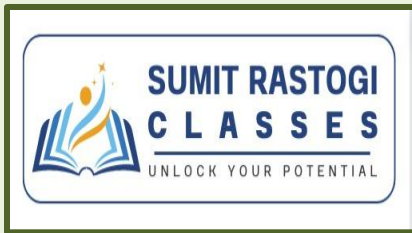
Cash from Operation = Operating Profit + Non-Cash Charges + Decrease in Debtors
= ₹ [(50-35-5)+ 5+6] crores = ₹21 crores.

23. Classify the following items under the appropriate heading as per AS-3 in the cash flow statement:

- (A) Repayment of long-term borrowings
- (B) Dividend paid
- (C) Dividend received
- (D) Income-tax paid on trading profits.

Ans.

- | | |
|--|------------------------|
| (A) Repayment of long term borrowings | - Financing Activities |
| (B) Dividend paid | - Financing Activities |
| (C) Dividend received | - Investing Activities |
| (D) Income-tax paid on trading profits | - Operating Activities |



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24. According to AS-3 (Revised), interest received on investment is an element of cash flow from _____ activities.
- (A) Operating
 - (B) Investing
 - (C) Financing
 - (D) Non-Cash

Ans. (B) Investing

25. In Cash Budget, Interest on Fixed Deposits made in a Bank with a maturity period of 3 years is:
- (A) Cash Flows from Operating Activity
 - (B) Cash Flows from Financing Activity
 - (C) Cash Flows from Investing Activity
 - (D) None of the above

Ans. (C) Cash Flows from Investing Activity

26. PJ Ltd. purchased a Machine on 01-10-2021 for ₹20,80,000 payable as to 25% by a cheque and 50% of the balance by an issue of 14% Preference share of ₹500 each at a premium of ₹20 per share and the remaining by an issue of 12% Debentures of ₹500 each at a premium of 4%. Unpaid interest on these debentures and Unpaid Preference Dividend on 31st March 2022 amounted to ₹5,000 and ₹2,500 respectively. Calculate Cash flow from Financing Activities for Cash Flow Statement as per AS-3.
- (A) (1,87,800)
 - (B) (1,80,000)
 - (C) (93,900)
 - (D) (90,000)

Ans. (D) (90,000)

Working Note:

Issue of Preference Capital (Including Premium) = $20,80,000 \times 75\% \times 50\% = ₹7,80,000$

Face value of Preference Share capital = $7,80,000 \times 500/520 = ₹7,50,000$

Debentures = $20,80,000 \times 75\% \times 50\% = ₹7,80,000$

Face Value of Debentures = $7,80,000 \times 500/520 = ₹7,50,000$

Interest payable = $7,50,000 \times 12\% \times 6/12 = ₹45,000$

Unpaid Interest = ₹5,000

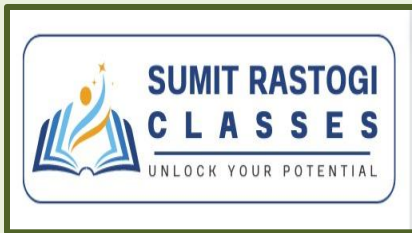
Interest Paid = ₹40,000

Dividend payable = $7,50,000 \times 14\% \times 6/12 = ₹52,500$

Unpaid Dividend = ₹2,500

Dividend Paid = ₹50,000

Total Cash flow from Financing Activity = $(40,000) + (50,000) = ₹(90,000)$



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27. Interest from Fixed Deposits in Banks is shown as:

- (A) Cash Flows from Operating Activities
- (B) Cash Flows from Investing Activities
- (C) Cash Flows from Financing Activities
- (D) None of the above

Ans. (B) Cash Flows from Investing Activities

28. Cash Flow Statement (based on Ind AS-7) for listed companies should be presented as per the _____ Method.

- (A) Direct
- (B) Indirect
- (C) Both Direct and Indirect
- (D) Cash Basis

Ans. (B) Indirect

29. The current Assets of BOT Ltd. is ₹4,00,000, while Quick Ratio is 1.80:1. If the current liabilities are ₹2,00,000 what will be value of Stock?

- (A) ₹60,000
- (B) ₹50,000
- (C) ₹40,000
- (D) None of the above

Ans. (C) ₹40,000

Working Note:

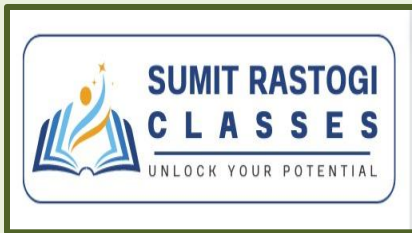
$$\begin{aligned}\text{Quick Ratio} &= (\text{CA} - \text{Stock}) / \text{CL} \\ 1.8 &= (4,00,000 - \text{Stock}) / 2,00,000 \\ 3,60,000 &= 4,00,000 - \text{Stock} \\ \text{Stock} &= \text{₹40,000}\end{aligned}$$

30. The signs of large inventory build-up in anticipation of price increase in future can be best diagnosed from _____.

- (A) Asset Turnover Ratio
- (B) Working Capital Turnover Ratio
- (C) Inventory Turnover Ratio
- (D) Current Ratio

Ans. (C) Inventory Turnover Ratio

Reason: Decrease in inventory turnover ratio can indicate that inventory is increasing, while other three ratios can increase or decrease due to other factors as well.



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31. If the average receivables are ₹3,25,000, the cash sales are ₹2,50,000 and the average collection period is 2 months, then the amount of sales is:
- (A) ₹20,00,000
(B) ₹22,00,000
(C) ₹19,50,000
(D) ₹21,50,000

Ans. (B) ₹22,00,000

Working Note:

Collection Period = $3,25,000 \times 12 / \text{credit sales}$
Credit Sales = $3,25,000 \times 12 / 2 = ₹19,50,000$
Total Sales = $19,50,000 + 2,50,000 = ₹22,00,000$

32. The Piotroski F Score which measures a stock's financial condition is based on:
- (A) Binary scoring system based on nine parameters
(B) A scaled scoring system based on nine parameters
(C) Binary scoring system based on ten parameters
(D) A scaled scoring system based on ten parameters

Ans. (A) Binary scoring system based on nine parameters

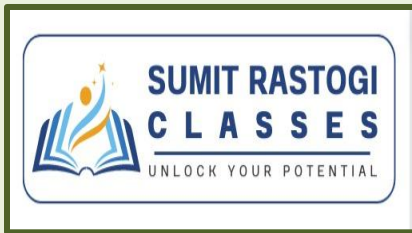
Reason: F score is based on nine parameters where we assign value 1 if the parameter is positive in current year, else we assign 0. Hence, it is a binary scoring system.

33. Following information has been taken from the Balance Sheet of MJK Ltd. 8% debentures payable 15 Lakh, 12% preference shares 15 Lakh and ordinary shareholders' equity is 40 Lakh. You have to calculate the capital gearing ratio of the company.
- (A) 4:2
(B) 4:3
(C) 4:7
(D) 4:9

Ans. (B) 4:3

Working Note:

Capital Gearing Ratio = $\text{Common Stockholders' Equity} / \text{Fixed Cost bearing Funds}$
= $40 / (15 + 15) = 40 / 30 = 4:3$



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34. Average collection period is 3 months, cash sales and average receivables are ₹3,00,000 and ₹4,00,000 respectively. The total amount of sales will be _____.

(A) ₹18,00,000
(B) ₹19,00,000
(C) ₹22,00,000
(D) ₹25,00,000

Ans. (B) ₹19,00,000

Working Note:

Collection period = $4,00,000 \times 12 / \text{credit sales}$
Credit sales = $4,00,000 \times 12 / 3 = ₹16,00,000$
Total Sales = $16,00,000 + 3,00,000 = ₹19,00,000$

35. If the profit after taxes of a company is ₹5,40,000, the preference dividend is ₹60,000 and the dividend payable to 1,60,000 equity shares is @₹2 per share, then the equity dividend coverage ratio is _____.

(A) 1.50 times
(B) 1.62 times
(C) 1.55 times
(D) 1.80 times

Ans. (A) 1.50 times

Working Note:

Earnings available to Equity = $5,40,000 - 60,000 = ₹4,80,000$
Equity dividend coverage ratio = $\text{EAES} / \text{Equity Dividend} = 4,80,000 / 3,20,000 = 1.50$
times.

36. Cash received from issue of shares comes under the following head:

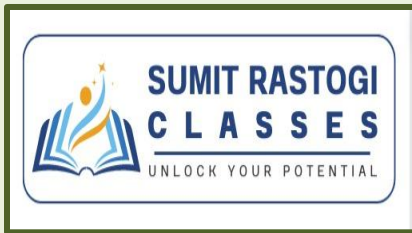
(A) Cash flow from Operating Activities
(B) Cash Flow from Investing Activities
(C) Cash Flow from Financial Activities
(D) None of the above

Ans. (C) Cash flow from Financial Activities

37. All listed companies are required to prepare:

(A) Funds Flow Statement
(B) Cash Flow Statement
(C) Statement of Affairs
(D) All of the above

Ans. (B) Cash Flow Statement



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38. RUB Ltd. earned a Profit of ₹2,40,000 during the year 2020-21. If its PV Ratio is 25%, what will be the Margin of Safety?
- (A) ₹8,80,000
(B) ₹9,00,000
(C) ₹9,60,000
(D) ₹9,80,000

Ans. (C) ₹9,60,000

39. In cash Flow Analysis the term cash includes cash on hand and _____ using the appropriate word(s) fill in the blank.
- (A) Demand deposits with banks
(B) Short-term investments
(C) Inventory
(D) Bills receivable

Ans. (A) Demand deposits with banks

40. Inter firm comparison is the technique of evaluation or _____. Using the appropriate word(s) fill in the blank.
- (A) Measurement of performance
(B) Recording of transactions
(C) Allocation of cost
(D) Estimation of profit

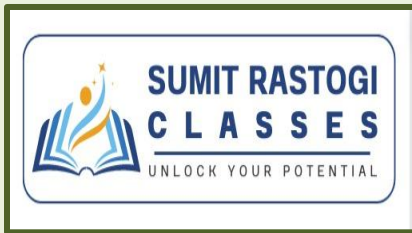
Ans. (A) Measurement of Performance

41. Suppliers and Creditors of a firm are primarily interested in _____.
- (A) Profitability Position
(B) Liquidity Position
(C) Market Share Position
(D) Debt Position

Ans. (B) Liquidity Position

42. Which of the following statements is correct?
- (A) A higher Receivable Turnover is not desirable
(B) Interest Coverage Ratio depends upon Tax Rate
(C) Increase in Net Profit Ratio means increase in Sales
(D) Lower Debt-Equity Ratio means lower Financial Risk

Ans. (D) Lower Debt-Equity Ratio means lower Financial Risk



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43. Which of the following does not help to increase current ratio?

- (A) Issue of debentures to buy stock
- (B) Issue of debentures to pay creditors
- (C) Sale of investments to pay creditors
- (D) Avail bank overdraft to buy machine

Ans. (D) Avail bank overdraft to buy machine

44. A firm wants to increase its current ratio from 1.5:1 to 2:1. Which action would be most prudent from the viewpoint of a financial manager?

- (A) Delaying payment of wages and salaries
- (B) Charging depreciation at higher rates for plant and machinery
- (C) Making cash payment to creditors
- (D) Selling obsolete furniture and fixture if the firm at cash

Ans. (C/D)(C) Making cash payment to creditors
(D) Selling obsolete furniture and fixture if the firm at cash

45. MJ Ltd. provides you the following information where you have to calculate interest coverage ratio. Net profit after interest and tax is ₹2,10,000, rate of income tax is 30% and there is 15% debentures of ₹3,00,000.

- (A) 8.03 times
- (B) 7.67 times
- (C) 9.55 times
- (D) 12.43 times

Ans. (B) 7.67 times

46. I Ltd.'s market price of shares having face value of ₹10 is ₹40. The profit available for equity shareholders are ₹5,00,000 and number of equity share is 1,00,000. Calculate Earning Yield Ratio.

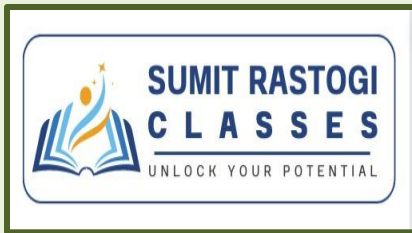
- (A) 11.5%
- (B) 12.5%
- (C) 13.5%
- (D) 14.5%

Ans. (B) 12.5%

47. A company has a Debt-Equity ratio of 1.7, whereas the industry average for Debt-Equity ratio is 1.2. this implies that _____.

- (A) The company has higher capital employed
- (B) The company has higher liquidity
- (C) The company has higher financial risk
- (D) The company is more profitable than other companies in the industry

Ans: (C) The company has higher financial risk



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CHAPTER – 4 SOURCES OF FINANCE AND COST OF CAPITAL

1. E is an exporter who relinquishes his right to a receivable due at a future date in exchange for immediate cash payment at an agreed discount, passing on all the risks and Responsibilities for collecting the debt to B. This arrangement is called_____.

(A) Factoring
(B) Discounting of Bills
(C) Forfeiting
(D) Leasing

Ans. (C) Forfeiting.

2. A process through which loans and other receivables are underwritten and sold in a form of asset is known as:

(A) Factoring
(B) Forfeiting
(C) Securitisation
(D) Bill Discounting

Ans. (C) Securitisation.

3. Which of the following is not a source of fund?

(A) Issue of Capital
(B) Issue of Debenture
(C) Decrease in Working Capital
(D) Increase in Working Capital

Ans. (D) Increase in Working Capital.

4. Debt Financing is a cheaper source of finance because of:

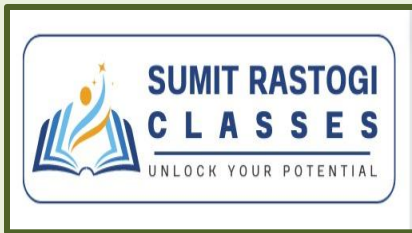
(A) Time Value of Money.
(B) Rate of Interest.
(C) Tax-deductibility of Interest.
(D) Dividend not payable to lenders

Ans. (C) Tax-deductibility of Interest.

5. Corporate financing instruments which have an unlimited life, voting right and right to receive dividends are known as:

(A) Non-Redeemable Preference Shares
(B) Redeemable Preference Shares
(C) Equity Shares
(D) Debentures

Ans. (C) Equity Shares.



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6. Which of the Statements about factoring is true?

- (A) The client is able to get 100% of total invoice as credit facility.
- (B) Factoring is the purchase of the invoice of the client.
- (C) Factoring is employed to finance domestic business only.
- (D) Factoring is used for medium term financing at a fixed rate of interest

Ans. (B) Factoring is the purchase of the invoice of the client.

7. _____ is a collaborative funding model that collects small contributions from many individuals.

- (A) Venture Capital
- (B) Angel Investment
- (C) Crowd funding
- (D) Factoring

Ans. (C) Crowd Funding.

8. Perpetual 15% debentures of 1,000 are sold at a premium of 10% with no floatation costs. Taking corporate tax rate at 35%, the after-tax cost of capital will be:

- (A) 6.88%
- (B) 7.88%
- (C) 8.86%
- (D) 10.73%

Ans. (C) 8.86%

Working Note:

After tax cost of capital (Kd) = [Interest payment/Sale price of Debenture] × [1 - t]
= [150 × (1 - 0.35)/(1,000 + 100)] × 100 = **8.86%**.

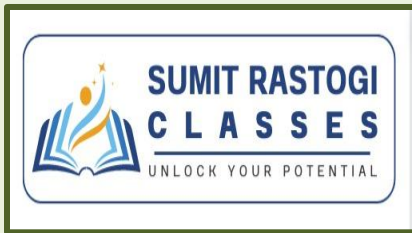
9. G Ltd. issues 20,000, 12% debentures of ₹100 each at premium of 10 percent. The debentures are redeemable after the expiry of a fixed period of 10 years at 20 per cent premium. Calculate the cost of debt after 30% tax.

- (A) 7.50%
- (B) 7.90%
- (C) 8.1739%
- (D) 8.80%

Ans. (C) 8.1739%.

Working Note:

Kd = [12(1 - 0.30) + (120 - 110)/10] / [(120 + 110)/2] = (8.4 + 1)/115 = **8.1739%**.



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10. A Co. pays a dividend of 20% on the equity shares of face value of ₹ 100 each. Find out the value of the equity share given that the dividend rate is expected to remain same and the required rate of return is 15%.

(A) ₹120
(B) ₹133.33
(C) ₹150
(D) ₹166.67

Ans. (B) ₹133.33.

11. The current market price and expected year-end dividend of an equity share are ₹90 and ₹4.50 respectively. The dividend growth rate is expected at 7% annually. Compute the cost of capital under the dividend growth model.

(A) 10%
(B) 11%
(C) 12%
(D) 13%

Ans.(C)12%.

Working Note:

Cost of equity = $K_e = [(D_1/P_0) + g] = [(4.5/90) + 0.07 = 0.12 = 12\%$.

12. P Ltd. issues 10,00,000, 12% debentures of 100 each at a premium of 20 per cent. The debentures are redeemable after the expiry of a fixed period of 10 years at 40 per cent premium. Calculate the cost of debt after tax if corporate tax rate is 30%.

(A) 8%
(B) 4%
(C) 5%
(D) 30%

Ans.(A) 8%

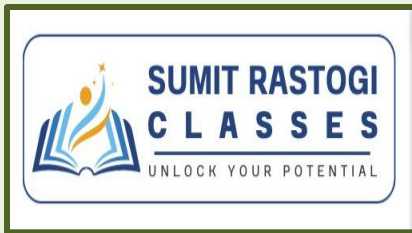
Working Note:

$K_d = [12(1 - 0.30) + (140 - 120)/10] / [(140 + 120)/2] = (8.4 + 2)/130 = 0.08$ or 8%.

13. Cost of capital may be defined as:

(A) Weighted Average cost of all debts.
(B) Rate of Return expected by Equity Shareholders.
(C) Average IRR of the Projects of the firm.
(D) Minimum Rate of Return that the firm should earn.

Ans. (D) Minimum Rate of Return that the firm should earn.



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14. Cost of Capital refers to:

- (A) Floatation Cost
- (B) Dividend
- (C) Required Rate of Return
- (D) None of the above.

Ans. (C) Required Rate of Return.

15. ABY Ltd. has paid dividend of ₹ 3 per share of ₹ 10 each last year and it is expected to grow @ 10% next year. If the market price of share is ₹ 60 what will be the Cost of equity?

- (A) 12.00%
- (B) 12.50%
- (C) 16.50%
- (D) 15.50%

Ans. (D) 15.50%

Working Note:

$$K_e = D_1 / P_0 + g = 3.30 / 60 + 0.10 = 0.155 = 15.50\%$$

16. The current market price of an equity share of a company is ₹80. The current dividend per share is ₹4. In case the dividend are expected grow at the rate of 7%, the cost of equity capital will be_____.

- (A) 11.00%
- (B) 12.00%
- (C) 12.35%
- (D) 13.50%

Ans. (C) 12.35%

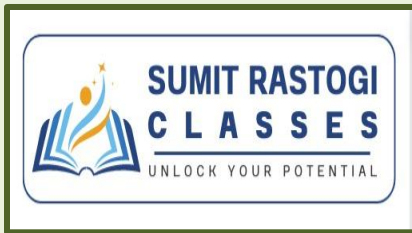
Working Note:

$$K_e = D_1 / P_0 + g = 4.28 / 80 + 0.07 = 0.1235 = 12.35\%$$

17. If Annual Growth Rate is 50% of the Cost of Equity and the Dividend Yield is 9%, then the Cost of Equity would be:

- (A) 18%
- (B) 20%
- (C) 22%
- (D) 25%

Ans. (A) 18%



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Working Note:

$K_e = \text{Dividend Yield} + \text{Growth rate}$

$K_e = 9 + 0.50 K_e$

$0.5 K_e = 9$

$K_e = 18\%$.

18. The capital structure of X Ltd. consists of 40% Equity Share Capital 40% Preference Capital and 20% Debt. The after-tax cost of the Preference Capital and Debt are 15% and 7.20% respectively. The weighted average cost is 15.44%. X Ltd. paid currently a dividend of ₹4 per share. The current market price of its equity share is ₹ 44. Find the growth rate.

- (A) 8%
(B) 9%
(C) 10%
(D) 11%

Ans. (C) 10%

Working Note:

$WACC = 0.40 K_e + 0.40 \times 15 + 0.20 \times 7.20$

$15.44 = 0.40 K_e + 6 + 1.44$.

$K_e = 20\%$

$K_e = D_1/P_0 + g$

$D_1 = 4 (1 + g)$

$0.20 = 4(1 + g)/44 + g$

$0.20 = 0.09091 (1 + g) + g$

$0.20 = 0.09091 + 0.09091g + g$

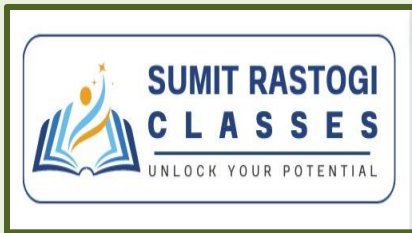
$0.10909 = 1.09091g$

$g = 0.10 = 10\%$

19. The capital structure of X Ltd. consists of 40% Equity Share Capital, 40% Preference Capital and 20% Debt. The after-tax cost of the Preference Capital and Debt are 18% and 9% respectively. The weighted average cost is 19%, X Ltd. paid currently a dividend of ₹13 per share. The current market price of its equity share is ₹ 112. Find the growth rate.

- (A) 9%
(B) 10%
(C) 11%
(D) 12%

Ans. (D) 12%



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Working Note:

$$WACC = 0.40K_e + 0.40 \times 18 + 0.20 \times 9$$

$$19 = 0.40K_e + 7.2 + 1.8$$

$$K_e = 25\%$$

$$K_e = D_1/P_0 + g$$

$$D_1 = 13(1+g)$$

$$0.25 = 13(1+g)/112 + g$$

$$0.25 = 0.11607(1+g) + g$$

$$0.25 = 0.11607 + 0.11607g + g$$

$$0.13393 = 1.11607g$$

$$G = 0.12 = 12\%$$

20. The relationship between the seller of the goods and financial firm is best explained by which of the following?

(A) Lease
(B) Factoring
(C) Forfeiting
(D) Hire Purchase System

Ans. (C) Forfeiting

21. BONI Ltd., has paid dividend of ₹3 per share of ₹10 each last year and it is expected to grow @10% next year. If the market price of share is ₹60 the Cost of equity will be:

(A) 16.50%
(B) 15.50%
(C) 12.50%
(D) 12.00%

Ans. (B) 15.50%

Working Note:

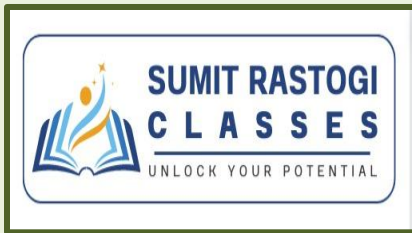
$$K_e = (D_1/P_0) \times 100 + g$$

$$K_e = (3.3/60) \times 100 + 10 = 15.5\%$$

22. MJ Ltd. has issued 5,000, 10% Debentures of ₹100 each. The rate of inflation is 6%. Calculate the real cost of debt.

(A) 3.77%
(B) 3.90%
(C) 4.10%
(D) 4.57%

Ans. (A) 3.77%



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Working Note:

$$\text{Real } K_d = [(1.10/1.06) - 1] \times 100 = 3.77\%$$

23. Which one of the following statements is correct concerning the Weighted Average Cost of Capital (WACC) of any firm?

- (A) The WACC may decrease as a firm's debt-equity ratio increases.
- (B) In the computation of WACC, weight assigned to the preferred stock is based on the coupon rate multiplied by the par value of the stock.
- (C) A firm's WACC will increase as the corporate tax rate increases.
- (D) The WACC does not consider redeemable preference shares of the firm.

Ans. (A) The WACC may decrease as a firm's debt-equity ratio increases.

Reason: Debt is generally a cheaper source of finance than equity, hence with increase in debt-equity ratio proportion of debt will increase and equity will decrease which will result in reduction of WACC.

24. Rajesh Polymers Ltd. issued ₹4,00,000, 9% perpetual debentures at a premium of 10%. The costs of floatation are 2%. The tax rate is 50%. What is the after-tax cost of debt?

- (A) 4.15%
- (B) 4.17%
- (C) 14.17%
- (D) 4.20%

Ans. (B) 4.17%

Working Note:

$$\begin{aligned} \text{After tax cost of capital (Kd)} &= [\text{Interest payment/Sale price of Debenture}] \times [1 - t] \\ &= [36,000 \times (1 - 0.50) / (4,40,000 - 8,000)] \times 100 = 4.17\% \end{aligned}$$

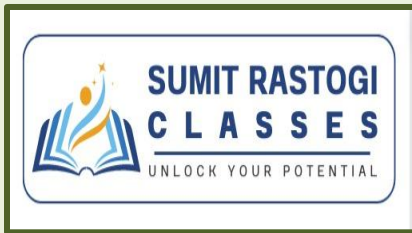
25. Systematic Risk of the firm is 1.5, 182 days treasury bills currently yield 9%, expected yield on the market portfolio of assets is 14%. Determine the cost of equity capital based on the given data.

- (A) 15%
- (B) 15.5%
- (C) 16%
- (D) 16.5%

Ans. (D) 16.5%

Working Note:

$$K_e = R_F + \beta_P \times (R_M - R_F) = 9 + 1.5 (14 - 9) = 16.5\%$$



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26. Which of the following forms of equity financing is especially designed for funding High Risk & High Reward projects?

- (A) ADR
- (B) GDR
- (C) FCCB
- (D) Venture Capital

Ans. (D) Venture Capital

27. Who said – “Investors prefer the early resolution of uncertainty and are willing to pay a higher price of the shares that offer the greater current Dividends”?

- (A) Myron J. Gordon
- (B) Walter
- (C) Franco Modigliani
- (D) Merton Miller

Ans. (A) Myron J. Gordon

28. Calculate the Risk-free rate of return if the value of beta (β) is 1.5, Market return = 13% and Cost of Equity = 16%.

- (A) 5.5%
- (B) 6.25%
- (C) 6.75%
- (D) 7%

Ans. (D) 7%

29. Given, risk-free rate of return = 6%; market return = 11%; cost of equity = 15%; value of beta (β) is:

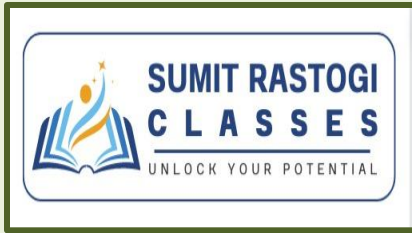
- (A) 1.9
- (B) 1.8
- (C) 2.0
- (D) 2.2

Ans. (B) 1.8

30. If risk free rate of return is 8%, return on market portfolio is 12%, beta = 1.5, then the expected rate of return according to CAPM is equal to _____.

- (A) 10%
- (B) 14%
- (C) 18%
- (D) 24%

Ans. (B) 14%



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31. Which of the following cost of capital require tax adjustment?

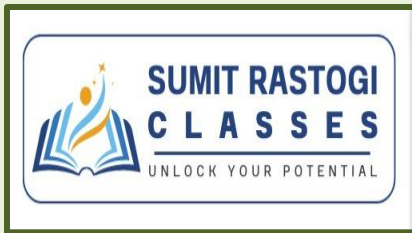
- (A) Cost of equity shares
- (B) Cost of preference shares
- (C) Cost of retained earnings
- (D) Cost of Debentures

Ans. (D) Cost of Debentures

32. When the cost of equity capital under CAPM has to be calculated, which of the following is not taken into consideration?

- (A) Beta Factor
- (B) Market Rate of Return
- (C) Market Price of Equity Share
- (D) Risk-free Rate of Interest

Ans. (C) Market Price of Equity Share



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CHAPTER – 5 CAPITAL BUDGETING

1. Ascertain the discounted value at 10% p.a. at the end of year 1 of an investment of ₹2,00,000 to be made at the end of year 2 and ₹3,00,000 made immediately.
- (A) ₹4,81,818
(B) ₹5,00,000
(C) ₹5,11,818
(D) ₹5,30,000

Ans. (C) ₹5,11,818.

Working Note:

$$P.V. = 3,00,000 (1.1) + 2,00,000/1.1 = 3,30,000 + 1,81,818 = ₹5,11,818$$

2. What is the acceptance rule for a project under the internal rate of return parameter?
- (A) Accept if $IRR < \text{Cost of Capital}$
(B) Accept if $IRR = 0$
(C) Accept if $IRR > \text{Cost of Capital}$
(D) Accept all projects irrespective of IRR

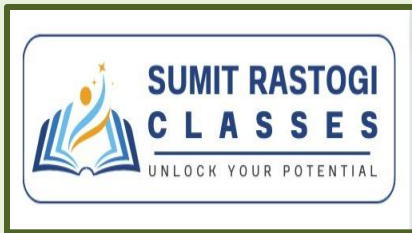
Ans. (C) Accept if $IRR > \text{Cost of Capital}$

3. If Discounted Pay Back period is 5 years and cost of capital is 12%, find IRR when the life of the project is also 5 years.
- (A) 10%
(B) 12%
(C) 14%
(D) 16%

Ans. (B) 12%.

4. The discount rate used for determining NPV of a project under capital budgeting is at least the _____.
- (A) Risk-free rate
(B) Inflation rate
(C) Cost of capital
(D) Dividend rate

Ans. (C) Cost of Capital.



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5. ₹25,000 is being invested at the beginning of every year. We are now at the end of year II. Considering a 10% interest rate, what is today's value of the annual investments from year I till and including that of year V?
(Take 10% discount factors as: 1, 0.909, 0.826, 0.751, 0.683, 0.621, 0.564 for year-end 0, 1, 2, 3, 4, 5, 6).

(A) ₹1,14,650
(B) ₹1,20,000
(C) ₹1,25,000
(D) ₹1,30,000

Ans. (C) $25,000 \times 5 = ₹1,25,000$

6. The following is not a Discounted Cash Flow Technique:

(A) NPV
(B) PI
(C) Accounting of Average Rate of Return
(D) IRR

Ans. (C) Accounting of Average Rate of Return

7. Which of the following is not incorporated in Capital Budgeting?

(A) Tax-Effect
(B) Time Value of Money
(C) Required Rate of Return
(D) Rate of Cash Discount

Ans. (D) Rate of Cash Discount.

8. Which of the following variables is not known in Internal Rate of Return?

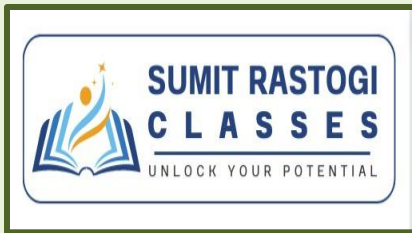
(A) Initial Cash Flows
(B) Discount Rate
(C) Terminal Inflows
(D) Life of the Project

Ans. (B) Discount Rate.

9. Capital Budgeting techniques which considers the time value of money is based on:

(A) Cash Flows of the organization
(B) Accounting Profit of the organization
(C) Interest Rate on Borrowings
(D) Last Dividend Paid

Ans. (A) Cash Flows of the organization



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10. Internal rate of return is the discounting factor which:

- (A) Ensures that the present value of Net Cash Inflow is $\geq$ the Net Cash Outflow
- (B) Ensures that the present value of Net Cash Inflow is $\leq$ the Net Cash Outflow
- (C) None of these
- (D) Equates the present value of Net Cash Inflow to the Net Cash Outflow

Ans. (D) Equates the present value of Net Cash Inflow to the Net Cash Outflow.

11. A project of ₹20,00,000 yielded annually profit of ₹3,00,000 after depreciation at 12.5% for 5 years and is subject to income tax at 50%. What will be the Pay Back Period?

- (A) 5 Years
- (B) 4 Years
- (C) 3 Years
- (D) 2 Years

Ans. (A) 5 Years

Working Note:

Profit Before Tax	3,00,000
- Tax at 50%	1,50,000
Profit After Tax	1,50,000
+ Depreciation	2,50,000
Annual Cash flow	4,00,000

Payback Period = Initial Outflow/Annual Cash inflow = 20,00,000 / 4,00,000 = 5 Years.

Note: This method of calculation of Payback period is only possible when Annual Cash flow is same throughout the project life.

12. Annual Cost Saving ₹80,000, Applicable Present Value of Annualised Cash flows for ₹1 is 2.855, Profitability index 1-064, Salvage value 0. NPV will be:

- (A) ₹14,617-60
- (B) ₹14,671-60
- (C) ₹14.761-60
- (D) None of the above

Ans. (D) None of the above

Working Note:

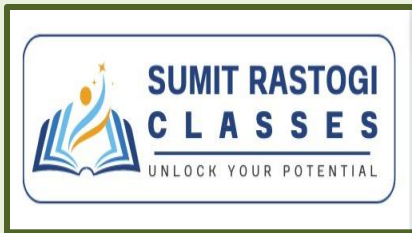
PI = Discounted Cash inflow/Initial Investment

1.064 = 80,000 × 2.855/Initial Investment

Initial Investment = 2,28,400/1.064

Initial Investment = 2,14,662

NPV = 2,28,400 - 2,14,662 = ₹13,738.



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13. The Present value of Total Cash inflows of a Project for 5 years is ₹3,37,050. If the profitability Index is 1.05 what will be the cost of a project?

(A) ₹3,53,900
(B) ₹3,50,000
(C) ₹3,21,000
(D) ₹3,20,000

Ans. (C) ₹3,21,000

Working Note:

Profitability Index = PV of Total Cash Inflows/Cost of Project

1.05 = 3,37,050/Cost of Project

Cost of Project = ₹3,21,000

14. X Ltd. is considering an investment proposal involving an initial cash outlay of ₹20,00,000. The proposal has an expected life of 7 years and zero salvage value. At a required rate of return of 12%, the proposal has a profitability index of 1.182. Calculate the present value of cash inflows. The present value of an annuity of ₹1 for 7 years at 12% discount is 4.5638.

(A) ₹22,64,000
(B) ₹23,70,000
(C) ₹23,64,000
(D) ₹22,70,000

Ans. (C) ₹23,64,000

Working Note:

Profitability Index = PV of Total Cash Inflows/Cost of Project

1.182 = PV of Total Cash Inflows/20,00,000

PV of Total Cash Inflows = ₹23,64,000

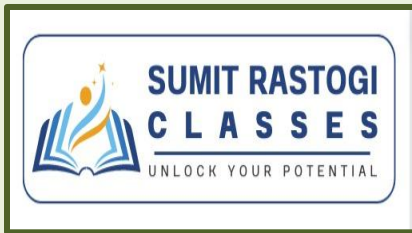
15. If the cost of the project is ₹22,84,000, the useful life is 5 years and the annuity is ₹8,00,000, then the Pay-Back Period is:

(A) 3 Years
(B) 2 Years 11 Months
(C) 2 Years 9 Months
(D) 2 Years 8 Months

Ans. (B) 2 Years 11 Months

Working Note:

Pay-back period = 22,84,000/8,00,000 = 2.855 years or 2 years 11 Months.



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16. The cash outlay for a project is ₹2 lakh. The cash inflows that are expected to be generated are ₹1,20,000 at the end of the first year and ₹1,60,000 at the end of the second year. If the discounting rate is 10%, then the profitability Index is _____.

(A) 1.44
(B) 1.25
(C) 1.21
(D) 1.42

Ans. (C) 1.21

Working Note:

Discounted Cash Inflow = $1,20,000 \times 0.9091 + 1,60,000 \times 0.8264 = ₹2,41,316$

Profitability Index = Discounted Cash Inflow/Outflow = $2,41,316/2,00,000 = 1.21$

17. Which one of the following is not applied in determining the credit policy of a firm?

(A) Credit period or duration of credit
(B) Level of Credit sales to optimize profits
(C) Collection policy
(D) Cost of goods sold

Ans. (D) Cost of goods sold

18. K Ltd's project with initial investment of ₹60 lakh and life of 10 years generates CFAT of ₹12 lakh per annum. Calculate Payback Reciprocal or the K Ltd's project.

(A) 20%
(B) 25%
(C) 30%
(D) 40%

Ans. (A) 20%

19. Kartika Ltd. provides you the following information:

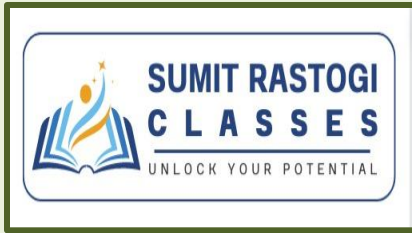
Payback period is 3.76 years, discounted payback period is 3.95, present value of cash inflow is ₹15,83,892 and present value of cash outflow is ₹14,00,000. What is the profitability index of the project?

(A) 1.13
(B) 1.05
(C) 1.83
(D) 1.95

Ans. (A) 1.13

Working Note:

Profitability Index = $15,83,892 / 14,00,000 = 1.13$



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20. A project with an initial investment of ₹60,00,000 with life of 12 years generates CFAT of ₹15,00,000 per annum. You have to calculate Payback reciprocal in percentage of the project.

- (A) 18%
- (B) 21%
- (C) 22%
- (D) 25%

Ans. (D) 25%

21. Which of the following is not followed in capital budgeting?

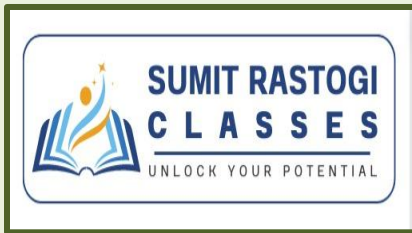
- (A) Cash Flow Principle
- (B) Interest Exclusion Principle
- (C) Accrual Principle
- (D) Post-tax Principle

Ans. (C) Accrual Principle

22. In Capital Budgeting. Sunk Cost is excluded because_____.

- (A) It is of small amount
- (B) It is not incremental
- (C) It is not reversible
- (D) All of the above

Ans. (B) It is not incremental



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CHAPTER – 6 WORKING CAPITAL MANAGEMENT

1. Working Capital Management involves financing and management of:

- (A) All Assets
- (B) All Current Assets
- (C) Cash and Bank Balance
- (D) Receivables and Payables.

Ans. (B) All Current Assets

2. The excess of Current Assets over Current Liabilities is called:

- (A) Net Current Assets
- (B) Net Working Capital
- (C) Working Capital
- (D) All of the above.

Ans. (D) All of the above

3. Which of the following is not considered while preparing cash budget?

- (A) Accrual Principal
- (B) Difference in Capital and Revenue items
- (C) Conservation Principle
- (D) All of the above

Ans. (D) All of the above

4. ABC Analysis is used in:

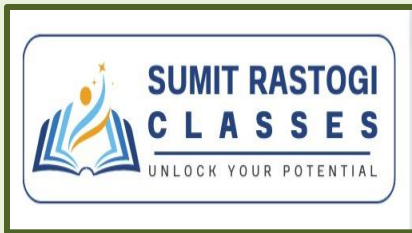
- (A) Inventory Management
- (B) Receivables Management
- (C) Accounting Policies
- (D) Corporate Governance

Ans, (A) Inventory Management

5. The term Float is used in:

- (A) Receivable Management
- (B) Cash Management
- (C) Marketable Management
- (D) Inventory Management

Ans. (B) Cash Management



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6. Which of the following would be consistent with a more aggressive approach to financing working capital?
- (A) Financing permanent inventory buildup with long-term debt.
 - (B) Financing short-term needs with short-term funds
 - (C) Financing some long-term needs with short-term funds
 - (D) Financing seasonal needs with short-term funds.

Ans. (C) Financing some long-term needs with short-term funds

7. If A = Annual Consumption of Input (in Units), O = Ordering Cost per order and C = Carrying Cost per unit per annum, calculate the Ordering Cost per Annum at the Order Size of $\sqrt{(2AO/C)}$
- (A) $\sqrt{(AOC)}$
 - (B) $2\sqrt{(AOC)}$
 - (C) $\sqrt{(AOC/2)}$
 - (D) $\sqrt{(2AOC)}$

Ans. (C) $\sqrt{(AOC/2)}$

Working Notes:

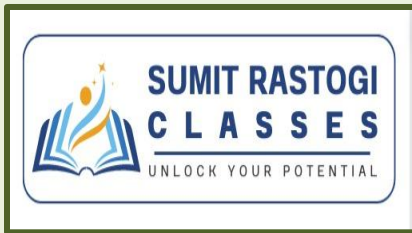
$$\begin{aligned}\text{Ordering Cost} &= A \times O / \text{Order Size} = AO / \sqrt{(2AO/C)} \\ &= AO \times \sqrt{(2AO/C)} / (2AO/C) \\ &= C \times \sqrt{(2AO/C)} / 2 \\ &= \sqrt{(AOC/2)}\end{aligned}$$

8. Total Sales ₹125 lakhs, Credit Sales being four times the cash sales. Variable Cost 85% of Sales, Bad Debt 5%, Selling Price per unit ₹500, Average Cost per unit ₹450, Credit Terms are 3/24, Net 40. 25% of the credit customers avail Cash Discount facility, Required Rate of Return (pre-tax) 16%, Tax Rate 25%. Calculate the Opportunity Cost of Investment in Receivable (assume 360 days in a year):
- (A) ₹1,08,000
 - (B) ₹1,20,000
 - (C) ₹1,40,000
 - (D) ₹None of the above

Ans. (A) ₹1,08,000

Working Note:

- (1) Credit sales = $125 \times 4/5 = ₹100$ Lakhs
Units = $1,00,00,000 / 500 = 20,000$ units
- (2) Average Credit Period = $0.25 \times 24 + 0.75 \times 40 = 36$ Days
Investment in receivables = $20,000 \times 450 \times 36/360 = ₹9,00,000$.
- (3) Opportunity cost of Investment in receivables = $9,00,000 \times 16\% \times (1-0.25) = ₹1,08,000$.



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9. Quarterly demand of Product ZED - 16,250 units, 2.5 units of Product ZED are obtained from one unit of raw material. Opening Stock of material is 14,000 units and Closing Stock will be 20% more than opening stock. The company incurs a handling cost of ₹ 10 plus freight of ₹65 per order. Storage Cost ₹0.50 per unit per month, Interest Cost 10% p.a., Obsolescence Cost 2% p.a., Purchase Price of Input Unit ₹ 50 per unit. How frequently should orders be placed assuming 360 days in a year?
- (A) 3 days
(B) 6 days
(C) 7.5 days
(D) 15 days

Ans. (C) 7.5 days

Working Note:

Quantity of Raw Material Required = $16,250 \times 4 / 2.5 = 26,000$ units

Quantity of Raw Material to be purchased = $26,000 + 14,000 \times 120\% - 14,000 = 28,800$ units

Ordering Cost = ₹75 per order

Carrying Cost = $12\% \times 50 + 0.50 \times 12 = ₹12$

EOQ = $[2 \times 28,800 \times 75 / 12]^{1/2} = 600$ units.

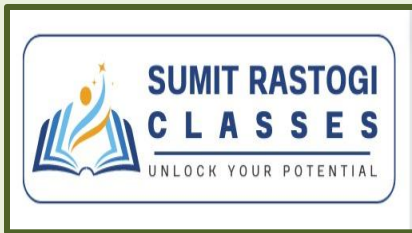
Frequency of orders = $600 \times 360 / 28,800 = 7.5$ days

10. _____ schedule classifies the receivables according to their age (the period for which they have been outstanding).
- (A) Cash Budget
(B) Receivables Turnover
(C) Ageing
(D) Credit Policy

Ans. (C) Ageing

11. All permanent current assets are financed out of long-term sources of finance under _____ Approach of Working Capital Management.
- (A) Aggressive
(B) Conservative
(C) Hedging
(D) Moderate

Ans. (A) Aggressive



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12. A Commercial paper of the face value of ₹10,00,000 is issued at ₹9,60,000 for a maturity period of 120 days. The annual financing cost of all commercial paper is _____.

- (A) 25%
- (B) 14.5%
- (C) 12.7%
- (D) 4%

Ans. (C) 12.7%

Working Note:

Financing Cost for 120 Days = $(10,00,000 - 9,60,000) \times 100 / 9,60,000 = 4.1667\%$

Annual Financing Cost = $4.1667 \times 360 / 120 = 12.5\%$

Nearest answer is 12.7%.

13. If the annual demand of raw materials is 20,000 units, the price per unit is ₹2, the ordering cost per order is ₹2,000 and the carrying cost percentage of average inventory is 10%, then the number of orders based on EOQ will be:

- (A) 3 Orders
- (B) 2 Orders
- (C) 1 Order
- (D) 4 Orders

Ans. (C) 1 Order

Working Note:

$C = 2 \times 10\% = ₹0.20$

$EOQ = (2AO/C)^{1/2}$

$EOQ = (2 \times 20,000 \times 2,000 / 0.20)^{1/2}$

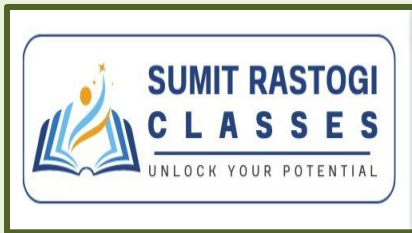
$EOQ = 20,000$ units

No. of Orders = Annual Demand / EOQ = $20,000 / 20,000 = 1$ Order.

14. Under ABC Analysis method of stock control, A' category items are _____.

- (A) Smaller in quantity but larger in value
- (B) Larger in quantity but smaller in value
- (C) Smaller in quantity and smaller in value
- (D) Larger in quantity and larger in value

Ans. (A) Smaller in quantity but larger in value



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15. E is an exporter who relinquishes his right to a receivable due at a future date in exchange for immediate cash payment at an agreed discount, passing on all the risks and responsibilities for collecting the debt to B. This arrangement is called _____.

(A) Factoring
(B) Discounting of Bills
(C) Forfeiting
(D) Leasing

Ans. (C) Forfeiting

16. A process through which loans and other receivables are underwritten and sold in a form of asset is known as:

(A) Factoring
(B) Forfeiting
(C) Securitisation
(D) Bill Discounting

Ans. (C) Securitisation

17. Working Capital Management involves financing and management of:

(A) All Assets
(B) All Current Assets
(C) Cash and Bank Balance
(D) Receivables and Payables

Ans. (B) All Current Assets

18. _____ schedule classifies the receivables according to their age (the period for which they have been outstanding).

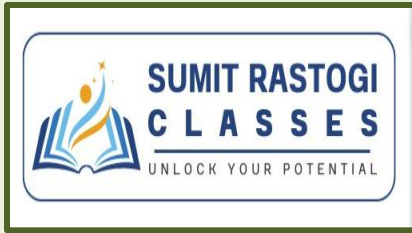
(A) Cash Budget
(B) Receivables Turnover
(C) Aging
(D) Credit Policy

Ans. (C) Aging

19. All permanent current assets are financed out of long-term sources of finance under _____ Approach of Working Capital Management.

(A) Aggressive
(B) Conservative
(C) Hedging
(D) Matching

Ans. (B) Conservative



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20. Average collection period is 3 months, cash sales and average receivables are ₹3,00,000 and ₹4,00,000 respectively. The total amount of sales will be _____.

- (A) ₹18,00,000
- (B) ₹19,00,000
- (C) ₹22,00,000
- (D) ₹25,00,000

Ans. (B) ₹19,00,000

21. Which financial metric is crucial for understanding a firm's Cash Management efficiency?

- (A) Gross Profit Margin
- (B) Cash Conversion Cycle
- (C) Operating Profit
- (D) Return on Capital Employed

Ans. (B) Cash Conversion Cycle

22. A company has the following working capital details:

Inventory Conversion Period = 40 Days
Receivable Collection Period = 30 Days
Payable deferral Period = 20 Days
What is the Cash Conversion Cycle (CCC)?

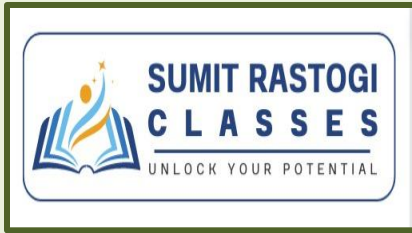
- (A) 40 Days
- (B) 50 Days
- (C) 60 Days
- (D) 70 Days

Ans. (B) 50 Days

23. In _____ records are maintained by the controlling department which reflects the physical movements of stocks and their current balance.

- (A) ABC Analysis
- (B) Economic Order Quantity
- (C) FSN Analysis
- (D) Perpetual Inventory System

Ans. (D) Perpetual Inventory System



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24. X Ltd. distributes its products to more than 500 retailers. The company's collection period is 35 days and it keeps its inventory for 15 days. The operating cycle would be _____.

(A) 50 Days
(B) 35 Days
(C) 20 Days
(D) 15 Days

Ans. (A) 50 Days

25. Given, Annual demand 8,000 units; ordering cost ₹40 per order, carrying cost ₹1 per unit per annum. Determine Economic Order Quantity

(A) 800 units
(B) 600 units
(C) 400 units
(D) 500 units

Ans.(A) 800 units

Working Note:

$$EOQ [2 \times 8,000 \times 40/1]^{1/2} = 800 \text{ units}$$

26. Average collection period is 2 months, cash sales and average receivables are ₹5,00,000 and ₹6,50,000 respectively. The sales amount would be_____.

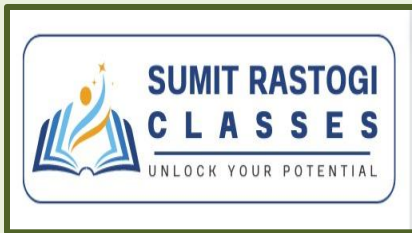
(A) ₹40,00,000
(B) ₹42,00,000
(C) ₹44,00,000
(D) ₹48,50,000

Ans.(C) ₹44,00,000

Working Note:

$$\text{Credit sales} = 6,50,000 \times 12/2 = ₹39,00,000$$

$$\text{Total Sales } 39,00,000 + 5,00,000 = ₹44,00,000$$



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CHAPTER – 7 FINANCING DECISIONS OF A FIRM

1. The MM Model argues that dividend is irrelevant as

- (A) The value of the firm depends upon earning power and not how the earnings are distributed
- (B) all investors buy shares to get capital gain only
- (C) dividend is payable only after deciding on the amount of retained earnings
- (D) The amount of dividend is only a small fraction of the market prices of shares

Ans. (A) The value of the firm depends upon earning power and not how the earnings are distributed.

2. M. Ltd. does not use any debt in its capital structure. The company has earnings before interest and tax of ₹2,00,000 per annum and the capitalization rate is 12%. Assume corporate tax of 30%. Calculate the value of the firm according to MM Hypothesis.

- (A) ₹10,00,000
- (B) ₹11,66,667
- (C) ₹12,50,000
- (D) ₹14,00,000

Ans. (B) $V_u = \text{EBIT} (1-t) / K_o = 2,00,000 (0.7) / 0.12 = ₹11,66,667$

3. According to Net Income approach, greater the proportion of debt capital_____ shall be the overall cost of capital.

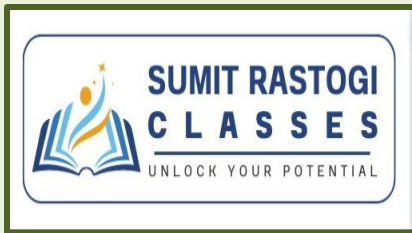
- (A) Higher
- (B) Lower
- (C) Constant
- (D) Uncertain

Ans. (B) Lower

4. UBI Ltd has EBIT of ₹1,00,000. The Company makes use of Debt and Equity Capital. The Company has 10% debentures of ₹4,00,000. If the Company's equity capitalization rate is 15%. What will be value of UBI Ltd?

- (A) ₹4,00,000
- (B) ₹7,00,000
- (C) ₹8,00,000
- (D) ₹6,00,000

Ans. (C) ₹8,00,000



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Working Note:

EBIT	1,00,000
Interest	(40,000)
EBT	60,000
Capitalisation rate	15%
Value of Equity = $60,000 / 15\%$	$= 4,00,000$
Value of Debt = $4,00,000$	
Value of Company = $4,00,000 + 4,00,000$	$= ₹8,00,000$.

5. Which among the following is not an assumption of the Net Operating Income Approach?

- (A) Value of the Firm remains the same.
- (B) Cost of Debt remains the same.
- (C) Cost of Capital remains the same.
- (D) Cost of Equity remains the same.

Ans. (D) Cost of Equity remains the same.

6. X Ltd. and Y Ltd. are identical in every respect except that X Ltd. does not employ Debt in its capital structure whereas Y Ltd. employs 10% Debentures amounting to ₹4 Lakhs. EBIT is ₹2,40,000. Equity Capitalization Rate of X Ltd. is 20%. Tax Rate 25%. Assuming that all assumptions of M-M model are met. Which of the following is false?

- (A) Value of X Ltd. = ₹9,00,000 and Value of Y Ltd. = 10,00,000
- (B) k of Y Ltd. 25%
- (C) k, of Y Ltd. = 18% and k, of X Ltd.=20%
- (D) None of the above

Ans. (B) k of Y Ltd. 25%

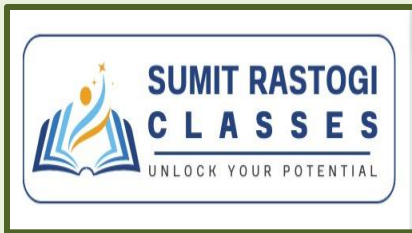
Working Note:

Value of X Ltd. = $2,40,000 (1-0.25) / 20\%$ = ₹ 9,00,000
Value of Y Ltd. = $9,00,000 + 4,00,000 \times 25\%$ = ₹10,00,000
K of Y Ltd. = $2,40,000 (1-0.25) / 10,00,000$ = 18%
K of X Ltd. = 20%

7. Which among the following is not an assumption of the Net Income Approach?

- (A) No Corporate Taxes
- (B) No Change in Risk Perception
- (C) Debt Capitalisation Rate is equal to Equity Capitalisation Rate
- (D) Value of the firm does not remain the same

Ans. (C) Debt Capitalisation Rate is equal to Equity Capitalisation Rate



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8. Given that Sales = ₹50,000, Variable Cost = 60%, Fixed Cost = ₹12,000 the operating leverage will be:
- (A) 2.2
(B) 2.0
(C) 5.2
(D) 2.5

Ans. (D) 2.5

Working Note:

Contribution = Sales - Variable cost = 50,000 - 30,000 = 20,000

So, Operating profit = ₹8,000.

Hence, Operating leverage = Contribution/operating profit = 20,000/ 8,000 = 2.50

9. Toli Ltd. earned a contribution of ₹50 per unit on 65,000 units sold. Company's debt is ₹30,00,000 at 12% rate of interest and Fixed Costs are ₹7,50,000. Calculate the Financial Leverage.
- (A) 1.10
(B) 1.17
(C) 1.25
(D) 1.50

Ans. (B) 1.17

Working Notes:

Contribution (65,000 x 50) 32,50,000

Less: Fixed Cost (7,50,000)

EBIT 25,00,000

Less: Interest (30,00,000 x 12%). (3,60,000)

EBT 21,40,000

Financial Leverage = EBIT/EBT = 25,00,000/ 21,40,000 = 1.1682

10. A firm earns a contribution of ₹ 4,80,000. Its operating leverage and financial leverage are respectively 4 and 5. Find the firm's PAT if the effective tax rate is 25%.
- (A) ₹12,000
(B) ₹18,000
(C) ₹24,000
(D) ₹30,000

Ans. (B) ₹18,000

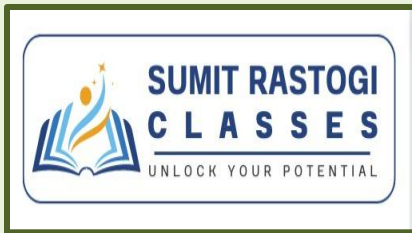
Working Notes:

Combined Leverage = Operating Leverage x Financial Leverage = 4 x 5 = 20

Combined leverage = Contribution/ EBT

EBT = Contribution/Combined Leverage = ₹4,80,000/20 = ₹24,000

PAT = EBT x (1 - Tax rate) = 24,000 x (1 - 0.25) = ₹18,000.



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11. The following particulars are furnished to you relating to a company:

(₹ in lakhs)

Sales	1,000
Variable cost	400
Fixed cost	300
Contribution	300
Interest	100
Profit before tax	200

You are required to calculate Operating leverage and Financial Leverage from the above.

- (A) 3,1.5
- (B) 2,1.5
- (C) 6,1.5
- (D) 4,1.5

Ans. (B) 2, 1.5

Working Note:

Operating Leverage = Contribution / EBIT = $600/300 = 2$

Finance Leverage = EBIT / EBT = $300/200 = 1.5$

12. The ratio of % change in one variable to the % change in some other variable is defined as _____ in the context of capital structure and finance.

- (A) Liquidity
- (B) Profitability
- (C) Leverage
- (D) Turnover

Ans. (C) Leverage.

13. You find that a firm has margin of safety = 25% of sales. Find the Degree of Operating Leverage.

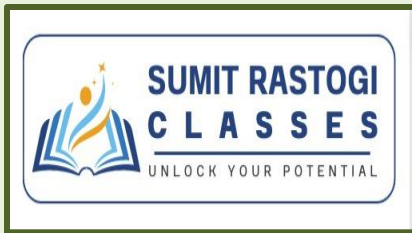
- (A) 2
- (B) 3
- (C) 4
- (D) 5

Ans. (C) 4

Working Notes:

Margin of Safety = 25% of sales implies that 100% reduction in profits (EBIT) for 25% reduction in sales;

DOL = % Change in EBIT / % Change in Sales; Thus DOL = $100/25 = 4$.



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14. If EBIT = ₹1,00,000, Fixed Assets = ₹2,00,000, Sales = ₹10,00,000 and Variable Cost = ₹7,00,000. Then, the Operating Leverage will be:
- (A) 2
(B) 3
(C) 6
(D) 4

Ans. (B) 3

Working Note:

Contribution = Sales - Variable Cost = 10,00,000 - 7,00,000 = ₹ 3,00,000

Operating Leverage = Contribution/ EBIT = 3,00,000/ 1,00,000 = 3.

15. At Indifference level of EBIT, different capitals have:

- (A) same EBIT
(B) same EPS
(C) same PAT
(D) same PBT.

Ans. (B) same EPS

16. The degree of operating Leverage and degree of financial Leverage of VIM Ltd. are 2 and 1.5 respectively. If the Sale increases by 10% what will be the percentage change in EPS?

- (A) 15% increase
(B) None of these
(C) 10% increase
(D) 30% increase.

Ans. (D) 30% increase

Working Note:

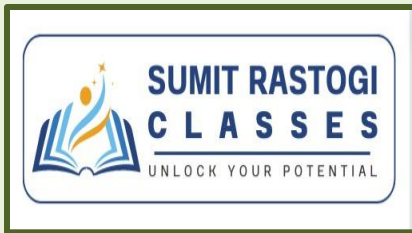
DCL = $2 \times 1.5 = 3$

Percentage increase in EPS = $3 \times 10 = 30\%$

17. EBIT-EPS chart is used for which of the following purpose?

- (A) Determining the Price-Earnings ratio
(B) Showing changes of EPS overtime
(C) Getting EPS levels for varying levels of EBIT
(D) Impact of sales on EBIT.

Ans. (C) Getting EPS levels for varying levels of EBIT



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18. If the Fixed Cost is 50% of EBIT, then Operating Leverage would be:

- (A) 2
- (B) 1.5
- (C) 3
- (D) 3.5

Ans. (B) 1.5

Working Note:

Operating Leverage = Contribution/EBIT = (Fixed Cost + EBIT)/ EBIT
(0.5 EBIT + EBIT)/EBIT
1.5 EBIT/EBIT = 1.5

19. The earnings of a company = ₹5,00,000. Dividend payout ratio is 60%. The number of shares outstanding = 1,50,000. Equity capitalization rate=11% and rate of return on investment = 16%. Calculate the market value of the share as per Walter's model.

- (A) ₹30.00
- (B) ₹32.50
- (C) ₹35.71
- (D) ₹40.00

Ans. (C) ₹35.71

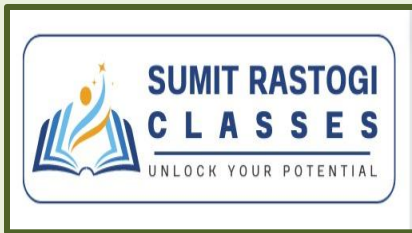
Working Note:

At per Walter's model,
 $P = [D + (E - D) (r/k_e)] / k_e$
 $= [2 + (3.33 - 2) (0.16/0.11)] / 0.11$
 $= [2 + 1.33 \times 1.45] / 0.11 = 3.9285 / 0.11 = ₹35.71$

20. _____ ratio expresses the relationship between what is actually paid in the form of dividends out of available earnings and what is available as earnings per share.

- (A) Ratio
- (B) Earnings Per Share
- (C) Pay-out
- (D) Price-Earnings

Ans. (C) Pay-out



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21. A Co. pays a dividend of 20% on the equity shares of face value of ₹100 each. Find out the value of the equity share given that the dividend rate is expected to remain same and the required rate of return is 15%.

(A) ₹120
(B) ₹133.33
(C) ₹150
(D) ₹166.67

Ans. (B) ₹133.33

Working Note:

$$P_o = D / K_e$$

Where P_o = Value of equity share,

D = Annual Dividend,

K_e = Required rate of return.

So, $K_e = 15\%$

$$D = 20 \text{ (i.e. 20\% of 100); } P_o = D / K_e = 20 / 0.15 = ₹133.33$$

22. Which one of the following activities is outside the purview of dividend decision in financial management?

(A) Identification of the profit after taxes
(B) Measurement of the cost of funds
(C) Deciding on the pay-out ratio
(D) Considering issue of bonus shares to equity shareholders.

Ans. (B) Measurement of the cost of funds

23. The 'Dividend-Payout Ratio' is equal to:

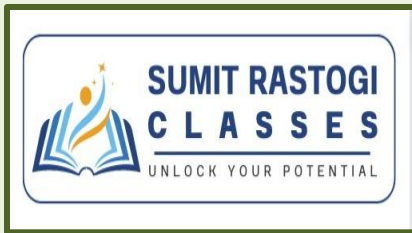
(A) The Dividend yield plus the capital gains yield
(B) Dividends per share divided by Earning per Equity Share
(C) Dividends per share divided by par value per share
(D) Dividends per share divided by current price per share.

Ans. (B) Dividends per share divided by Earning per Equity Share

24. What should be the optimum Dividend payout ratio, when $r = 12\%$ and $K_e = 10\%$?

(A) Zero
(B) 50%
(C) 12%
(D) 100%.

Ans. (A) Zero.



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25. Who said - "Investors prefer the early resolution of uncertainty and are willing to pay a higher price of the shares that offer the greater current Dividends"?
- (A) Franco Modigliani
 - (B) Myron J Gordon
 - (C) Walter
 - (D) Irving Fisher

Ans. (B) Myron J Gordon (1962).

26. Axis Ltd. follows Walter's view of dividend policy. Its earnings per share is ₹40 and face value of equity share is ₹ 100. It has a rate of return of 20% and capitalization rate is 8%. What should be the market price per share if payout ratio is zero?
- (A) ₹800
 - (B) ₹1,000
 - (C) ₹1,250
 - (D) ₹1,500

Ans. (C) ₹1,250

Working Note:

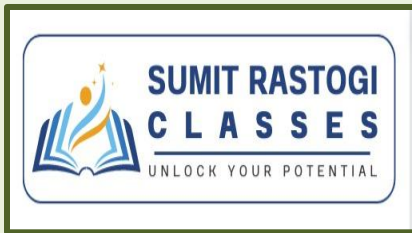
$P = [D + (E - D)(r/k_e)] / k_e$; P = Market Price per Share,
D = Dividend per Share (Re. 0); E = Earnings per Share (₹40)
R = Internal Rate of Return (20%)
K_e = Cost of Capital (8%)
 $P = [0 + 0.20 (40 - 0) / 0.08] / 0.08 = ₹1,250.$

27. The pecking order theory has emerged as an alternative theory to _____.
- (A) Trade off theory
 - (B) The traditional Approach
 - (C) Net Income Approach
 - (D) Net Operating Income Approach

Ans. (A) Trade off theory

28. Modigliani-Miller theory states that _____ is independent of the firm's dividend policy.
- (A) Earnings per share
 - (B) Dividend per share
 - (C) Market value of the firm
 - (D) Retained earnings

Ans. (C) Market Value of the firm



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29. Clientele effect associated with which of the following?

- (A) Gordon Model
- (B) Residual Model
- (C) Graham & Dodd Model
- (D) Modigliani and Miller Model

Ans. (D) Modigliani and Miller Model

30. The constant dividend growth mode is useful for _____.

- (A) Seasonal Industry
- (B) Mature Industry
- (C) Capital Oriented Industry
- (D) Growth Oriented Industry

Ans. (B) Mature Industry

31. _____ shows that the current dividend depends partly on current earnings and partly on previous year's dividend.

- (A) Gordon's Model
- (B) M.M. Model
- (C) Dividend Discount Model
- (D) Lintner Model

Ans. (D) Lintner Model

32. Given that Sales = ₹50,000, Variable Cost = 60%, Fixed Cost = ₹12,000, the operating leverage will be

- (A) 2.2
- (B) 2.0
- (C) 5.2
- (D) 2.5

Ans. (D) 2.5

Working Note:

Contribution = Sales – Variable Cost = 50,000 – 30,000 = 20,000

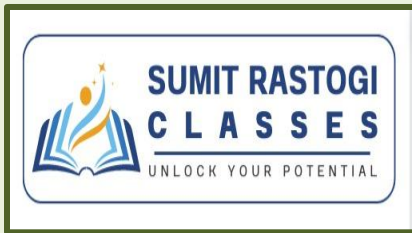
So, Operating Profit = ₹8,000

Hence, Operating Leverage = Contribution/Operating Profit = 20,000/8,000 = 2.50.

33. UBI Ltd. has EBIT of ₹1,00,000. The Company makes use of Debt and Equity Capital. The Company has 10% debentures OF ₹4,00,000. If the Company's equity capitalization rate is 15%. What will be value of UBI Ltd.?

- (A) ₹4,00,000
- (B) ₹7,00,000
- (C) ₹8,00,000
- (D) ₹6,00,000

Ans. (C) ₹8,00,000



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34. If the operating leverage is 1.22, the sales for the year is ₹75 lakhs, the variable cost is ₹42 lakhs, then the EBIT is equal to _____.
- (A) ₹32 Lakhs
(B) ₹27 Lakhs
(C) ₹31 Lakhs
(D) ₹31.5 Lakhs

Ans. (B) ₹27 Lakhs

35. Operating leverage arises because of _____.
- (A) Fixed Cost of Production
(B) Fixed Interest Cost
(C) Variable Cost
(D) Step Cost

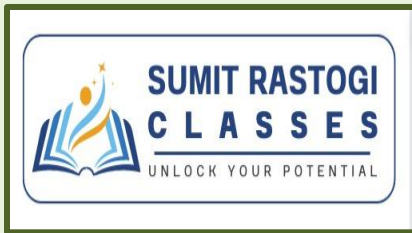
Ans. (A) Fixed Cost of Production

36. A firm has EBIT of ₹50,000. Market value of debt is ₹80,000 and overall capitalization rate is 20%. Market value of firm under NOI Approach is _____.
- (A) ₹2,50,000
(B) ₹1,70,000
(C) ₹30,000
(D) ₹1,30,000

Ans. (A) ₹2,50,000

37. A company is considering two capital structures. Plan A consists of 100% equity with 10,000 shares outstanding at ₹100 each. Plan B consists of 50% debt and 50% equity, where the debt is ₹5,00,000 at 10% interest and there are 5,000 shares outstanding at ₹100 each. If the EBIT is ₹1,50,000 and tax rate is 30%, what is the EPS under Plan B?
- (A) ₹14
(B) ₹17
(C) ₹20
(D) ₹18

Ans. (A) ₹14



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38. ABC Ltd. is selling its products at ₹2 per unit. The variable cost of manufacturing has been estimated at 35% while the fixed cost at the present sales level of 1,00,000 units comes to ₹1,00,000. The firm has issued 14% debentures of ₹26,000. Calculate the financial leverage for the firm.

(A) 1.34
(B) 1.24
(C) 1.14
(D) 1.04

Ans. (C) 1.14

39. The benefit of trading on equity can be enjoyed by a firm if

(A) The rate of interest > the rate of return of the firm
(B) The rate of interest = the rate of return of the firm
(C) The rate of interest < the rate of return of the firm
(D) None of the above

Ans. (C) The rate of interest < the rate of return of the firm.

40. If the profit after taxes of a company is ₹5,40,000, the preference dividend is ₹60,000 and the dividend payable to 1,60,000 equity shares is @₹2 per share, then the equity dividend coverage ratio is _____.

(A) 1.50 times
(B) 1.62 times
(C) 1.55 times
(D) 1.80 times

Ans. (A) 1.50 times

41. If the company's D/P ratio is 60% and ROI is 15%, what should be the growth rate under Gordon model?

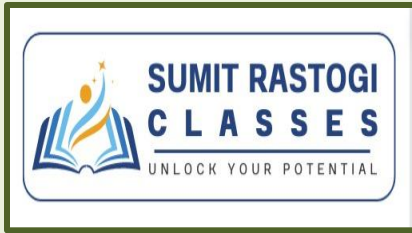
(A) 5.5%
(B) 7.2%
(C) 6.0%
(D) 9.6%

Ans. (C) 6.0%

42. Given, EPS = ₹10; Cost of Capital = 16%; Internal rate of return = 20% and Retention ratio = 40%. Calculate the price per share as per Gordon's Model.

(A) ₹60
(B) ₹75
(C) ₹90
(D) ₹105

Ans. (B) ₹75



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CHAPTER – 8 INTRODUCTION TO DATA SCIENCE FOR BUSINESS DECISION-MAKING

1. In which scale used for quantifying data is an arbitrary zero point used?

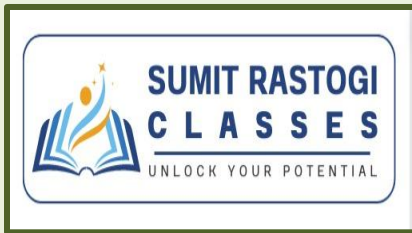
- (A) Nominal Scale
- (B) Ratio Scale
- (C) Ordinal Scale
- (D) Interval Scale

Ans. (D) Interval Scale

2. Which of the following is not an objective of Digitalization?

- (A) Wide spread access of data
- (B) Preservation of Data
- (C) Large Group of users
- (D) Large physical storage space

Ans. (D) Large physical storage space



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CHAPTER – 9 DATA PROCESSING, ORGANISATION, CLEANING AND VALIDATION

1. The probability density function describes
- (A) the characteristics of a random variable
 - (B) the characteristics of a non-random variable
 - (C) the characteristics of a random constant
 - (D) the characteristics of a non-random constant

Ans. (A) the characteristics of a random variable

2. Which of the following is not a data validation technique?
- (A) Code Check
 - (B) Range Check
 - (C) Length Check
 - (D) Consistency Check

Ans. (C) Length Check

3. Binomial distribution applies to attributes that are categorized into:
- (A) Two manually exclusive classes
 - (B) Three manually exclusive classes
 - (C) Four manually exclusive classes
 - (D) Five manually exclusive classes

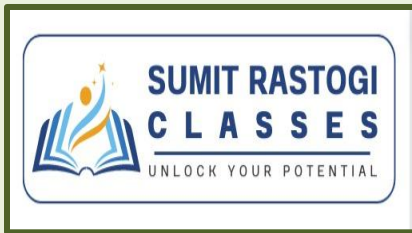
Ans. (A) Two manually exclusive classes

4. Normal distribution has a symmetric _____ representation.
- (A) Skewed
 - (B) Bell-shaped
 - (C) Rectangular
 - (D) Linear

Ans. (B) Bell Shaped

5. The procedure that organises data into a meaningful order to make it simpler to comprehend, analyse and visualize, is called _____.
- (A) Data Validation
 - (B) Data Sorting
 - (C) Data Aggregation
 - (D) Data Analysis

Ans. (B) Data Sorting



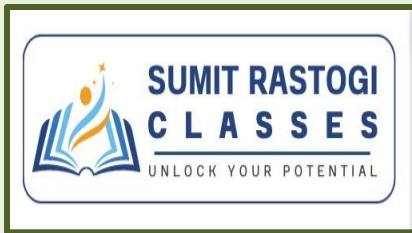
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6. _____ is any procedure that organizes data into a meaningful order to make it simpler to comprehend, analysis and visualize.
- (A) Data Aggregation
 - (B) Data Analysis
 - (C) Data Sorting
 - (D) Data Reporting

Ans. (C) Data Sorting

7. Which of the following is not a type of data validation?
- (A) Code check
 - (B) Range check
 - (C) Consistency check
 - (D) Price check

Ans. (D) Price check



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CHAPTER – 10 DATA PRESENTATION: VISUALIZATION AND GRAPHICAL PRESENTATION

1. A scatter plot displays several unique data points:

- (A) on four different graphs
- (B) on three different graphs
- (C) on a single graph
- (D) on two different graphs

Ans. (C) on a single graph

2. _____ represents a project timeline or activity changes across time.

- (A) Bubble Chart
- (B) Gantt Chart
- (C) Density Map
- (D) Scatter Plots

Ans. (B) Gantt Chart

3. Which of the following is a widely used graph for Data Visualization?

- (A) Bar Chart
- (B) Pie Chart
- (C) Histogram
- (D) All of the above

Ans. (d) All of the above

4. Numerical data maybe expressed as:

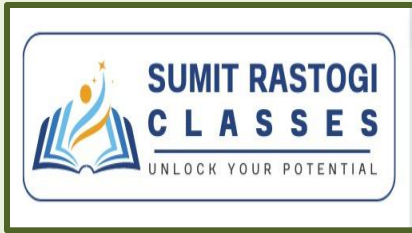
- (A) Text
- (B) Quantities
- (C) Images
- (D) All of the above

Ans. (D) All of the above

5. _____ is neither an IT nor a business skill set but exists as a separate field of expertise.

- (A) Data Visualization
- (B) Data presentation architecture
- (C) Data Mining
- (D) Data Analytics

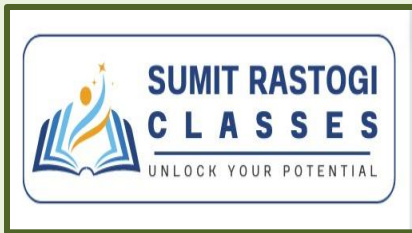
Ans. (B) Data presentation architecture



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6. A_____ depicts tasks that must be accomplished before others may be begin, as well as the allocation of resources.
- (A) Scatter Plots
 - (B) Density Map
 - (C) Bubble Chart
 - (D) Gantt Chart

Ans. (D) Gantt Chart



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CHAPTER – 11 DATA ANALYSIS AND MODELLING

1. Data _____ techniques are utilised to develop descriptions and hypotheses on a specific data set.
- (A) Predictive
 - (B) Inferential
 - (C) Descriptive
 - (D) Mining

Ans. (D) Mining

2. _____ architecture enables business to store sensitive data on premises and access it through app hosted in the public cloud.
- (A) Private Cloud
 - (B) Public Cloud
 - (C) Hybrid Cloud
 - (D) All of the above

Ans. (C) Hybrid Cloud

3. Cluster analysis is the process of assigning a set of data to subset so that observations can be made. Cluster analysis is part of _____.
- (A) Supervised Learning
 - (B) Unsupervised Learning
 - (C) Semi Supervised Learning
 - (D) Reinforcement Learning

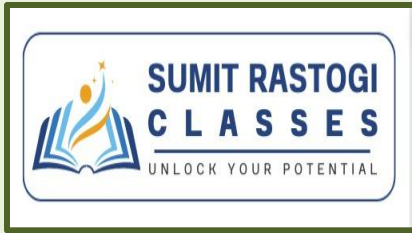
Ans. (B) Unsupervised Learning

4. Which of the following is not a technique of data mining?
- (A) KNN Algorithm
 - (B) Neural Network
 - (C) Decision Free
 - (D) Predictive Analytics

Ans. (D) Predictive Analytics

5. Which of the following is/are the type(s) of cloud computing?
- (A) Private Cloud
 - (B) Public Cloud
 - (C) Hybrid Cloud
 - (D) All of the above

Ans. (D) All of the above



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6. XBRL is the abbreviation of:

- (A) eXtensible Business Reporting Language
- (B) eXtensive Business Reporting Language
- (C) eXtended Business Reporting Language
- (D) eXclusive Business Reporting Language

Ans. (A) eXtensible Business Reporting Language

7. _____ classifies data points depending on their closeness to and correlation with other accessible data.

- (A) ANN Algorithm
- (B) CNN Algorithm
- (C) DNA Algorithm
- (D) KNN Algorithm

Ans. (D) KNN Algorithm