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1. The assets of a business can be classified as

A. Only fixed assets
B. Only current assets
C. Fixed and current assets
D. None of the above

Answer: C

2. What is customer value?

A. Post purchase dissonance
B. Excess of satisfaction over expectation
C. Ratio between the customer's perceived benefits and the resources used to obtained these benefits
D. None of the above

Answer: C

3. The cost of capital method includes

A. dividend yield method
B. earning yield method
C. growth in dividend method
D. all of the above

Answer: D

4. Which method does not consider the time value of money

A. Profitability Index
B. Net present value
C. Average rate of return
D. Internal Rate of Return

Answer: C

5. Risk in capital budgeting implies that the decision maker knows __________ of the cash flows.

A. Probability
B. Variability
C. Certainity
D. None of these

Answer: A

6. Cost of capital is helpful in corporative analysis of various

A. Product
B. Source of Finance

C. Source of Material
D. Source of Services

Answer: B

7. Which one of the following is not used to estimate cost of equity capital?
A. External yield criterion
B. Capital asset pricing model
C. Dividend plus growth rate
D. Equity capitalisation approach

Answer: A

8. Cost of capital from all the sources of funds is called
A. Implicit Cost
B. Specific cost
C. Composite cost
D. Simple Average Cost

Answer: C

9. The concept of present value is based on the
A. Principle of compound
B. Principle of discounting
C. Both (a) and (b)
D. None of the above

Answer: B

10. Which of the following term is used to represent the proportionate relationship between debt and equity?
A. Cost of capital
B. Capital structure
C. Assets Structure
D. Capital Budgeting

Answer: B

11. Which of the following has the highest cost of capital?
A. Bonds
B. Loans
C. Equity shares
D. Preference shares

Answer: C

12. The overall capitalisation rate and the cost of debt remain constant for all degrees of financial leverage is advocated by

A. M-M Approach
B. Traditional Approach
C. Net Income Approach
D. Net operating Income Approach

Answer: A

13. The cost of debt capital is calculated on the basis of

A. Capital
B. Net proceeds
C. Annual Interest
D. Arumal Depreciation

Answer: C

14. Two mutually exclusive projects with different economic lives can be compared on the basis of

A. Net Present Value
B. Profitability Index
C. Internal Rate of Return
D. Equivalent Annuity value

Answer: D

15. The basic objective of financial Management is

A. Ensuring financial disciplined in the organisation
B. Maximization of shareholders wealth
C. Profit planning of the organisation
D. Maxirnization of profits

Answer: B

16. Which statement is true about financial management?

A. The maximisation of profit is often considered as an implied objective of a firm
B. The wealth of a firm is defined as the market price of the firm's stock
C. An option is a claim without any liability
D. All of the above

Answer: D

17. Which of the following is not included in the assumption on which Myron Gorden proposed a

model on Stock valuation

A. Taxes do not exist
B. Finite Life of the firm
C. Constant rate of return on firms investment
D. Retained earning the only source of financing

Answer: B

18. Which is called as Dividend Ratio Method?

A. Asset Method
B. Equity Method
C. Debt Equity Method
D. Dividend Yield Method

Answer: D

19. If the current ratio is 2 : 1 and working capital is Rs. 60,000, What is the value of the current assets?

A. Rs. 1,00,000
B. Rs. 1,20,000
C. Rs. 1,40,000
D. Rs. 1,60,000

Answer: B

20. Profitability Index, when applied to divisible projects, impliedly assumes that

A. NPV is addictive in nature
B. NPV is linearly proportionate to part of the project taken up
C. Both (a) and (b)
D. Project cannot be taken in parts

Answer: C

21. Which of the following is not a relevant cost in capital budgeting?

A. Sunk cost
B. Allocated overheads
C. Both (a) and (b)
D. Opportunity cost

Answer: C

22. Which of the statement is true about dividend policy?

A. A stable and regular dividend keeps speculations away and prices of shares remain stable for longer period.
B. The dividend policy should be framed in accordance to the expectations of shareholders.
C. Legal requirements play an important role in the formulation of dividend policy.
D. All of the above

Answer: D

23. '360' degree method relates to
A. Retrenchments
B. Employees moral
C. Organization Climate
D. Performance appraisal

Answer: D

24. Which one refers to cash in how under pay back period method?
A. Cash flow before depreciation and after taxes
B. Cash flow after depreciation but before taxes
C. Cash flow before depreciation and taxes
D. Cash flow after depreciation and taxes

Answer: A

25. Arrange the following steps involved in capital budgeting in order of their occurrence (i) Project Selection (ii) Project appraisal (iii) Project generation (iv) Follow up (v) Project execution
A. (i), (ii), (iii), (v), (iv)
B. (i), (iii), (ii), (v), (iv)
C. (ii), (iii), (i), (v), (iv)
D. (iii), (ii), (i), (v), (iv)

Answer: D

26. Depreciation is incorporated in cash flows because it
A. Is a cash flow
B. Reduces tax liability
C. Involves an outflow
D. Is unavoidable cost

Answer: B

27. Which one is more appropriate for cost of retained earning?

A. Opportunity cost to the firm
B. Weighted Average cost of capital
C. Expected rate of return by the investor
D. None of the above

Answer: A

28. Debt financing is a cheaper source of finance because of

A. Rate of Interest
B. Time value of Money
C. Tax deductibility of Interest
D. Dividends not payable to lenders

Answer: C

29. Which of the following steps of purchase decision process is in sequence? (i) Problem recognition (ii) Search for alternative (iii) Evaluation of alternative (iv) Purchase action (v) Post purchase act

A. (i), (ii), (iii), (iv), (v)
B. (i), (iii), (ii), (v), (iv)
C. (iii), (ii), (i), (v), (iv)
D. (iv), (iii), (i), (v), (ii)

Answer: A

30. According to which of the following the firms market value is not affected by capital market.

A. Net Income Approach
B. The Traditional View
C. M.M. Hypothesis
D. None of the above

Answer: C

31. Which of the following statement are correct

A. Inventory includes raw materials, finished goods, and work in progress
B. Inventory is a part of the working capital
C. Both (a) and (b)
D. Inventory includes goods likely to be purchased

Answer: C

32. Business Plans designed to achieve the organisation objective is called

A. Strategic plan
B. Human Resource Planning
C. Human Resource forecasting
D. Corporate Development Plan

Answer: A

33. Which one is not an important objective of financial Management?
A. Value Maximisation
B. Profit Maximisation
C. Wealth Maximisation
D. Maximisation of Social benefits

Answer: D

34. Which one of the following is correct
A. Role of thumb for current ratio is 2: 1
B. Liquid ratio is also known as acid test ratio
C. A ratio is an arithmetical relationship of one number to another number
D. All of the above

Answer: D

35. The conflicts in project ranking in capital budgeting as per NPV and IRR may arise because of
A. Life disparity
B. Size disparity
C. Time disparity
D. All of the above

Answer: D

36. Capital gearing ratio indicates the relationship between
A. assets and capital
B. loans and capital
C. debentures and share capital
D. equity shareholders fund and long term borrowed funds

Answer: D

37. A newly established company cannot be successful in obtaining finance by way of
A. issue of debenture
B. issue of equity capital
C. issue of preference share
D. none of the above

Answer: A

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

A. Accrual Principle
B. Post-tax Principle
C. Cash flows principle
D. Interest Exclusion Principle

Answer: A

39. A view that dividend policy of a firm has a bearing on share valuation advocated by James E. Walter is based on which one of the following assumptions.

A. Return of investment function
B. Cost of capital does not remain constant
C. Retained earning is only source of financing
D. All of the above

Answer: C

40. The presence of fixed costs in the total cost structure of a firm results into

A. Super Leverage
B. Financial Leverage
C. Operating Leverage
D. None of the above

Answer: C

41. Scruting of financial transactions is called

A. Auditing
B. Accounting
C. Budgeting
D. Programming

Answer: A

42. A risk-free stock has a beta value equals

A. Zero
B. - 1
C. 0.5
D. 1

Answer: A

43. The degree of financial leverage reflects the responsiveness of

A. EPS to change in EBIT
B. EPS to change in total revenue
C. Operating income to change in total revenue
D. None of the above

Answer: A

44. Accounting rate of return is the ratio of average value of
A. profit after tax to book value of the investment
B. profit after tax to salvage value of the investment
C. profit after tax to present value of the investment
D. profit before tax to present value of the investment

Answer: A

45. Which of the following statement(s) regarding IRR is true?
A. If IRR is less than the firm's cost of capital, the project should be rejected
B. A project can have multiple IRRs depending on the cash flow streams
C. Both (a) and (b)
D. A project can have only one IRR

Answer: C

46. Modigliani and Miller's dividend policy of a firm is
A. Relevant
B. Irrelevant
C. Unrealistic
D. None of these

Answer: B

47. Given, Ke = (DPS / MP) X 100, may be used in
A. calculating capital structure
B. calculating cost of equity capital
C. calculating dividend yield on equity share
D. all of the above

Answer: B

48. Which one of the following is not a sources of conflict in project ranking in capital budgeting decision as per NPV and IRR.

A. No time disparity
B. No capital Budget constraints
C. Independent Investment project
D. None of the above

Answer: D

49. Which is the importance of the concept of cost of capital?
A. Helpful in Capital budgeting process
B. Helpful in Capital structure decisions
C. Helpful in comparative analysis of various sources of finance
D. All of the above

Answer: D

50. In case the finn is all equity financed, WACC would be equal to
A. Cost of Equity
B. Cost of Debt
C. Both (a) and (b)
D. None of these

Answer: A

51. The cost of capital declines when the degree of financial leverage increases 'who advocated it'.
A. Net income approach
B. Traditional Approach
C. Modigliani - Miller approach
D. Net operating income approach

Answer: A

52. The formula , ((1 - ti) EPS / MP ) X 100 , may be used for
A. cost of debt capital
B. cost of equity capital
C. cost of retained earnings
D. cost of preference share capital

Answer: C

53. Cost of depreciation fund computed as
A. Profit
B. Dividend
C. Short term loan capital
D. Long term loan capital

Answer: D

54. Dividend policy of a company mainly concern with (i) dividend payout and (ii) Stability of dividend

A. Only (i) is correct
B. Only (ii) is correct
C. Both (i) and (ii) are correct
D. Both (i) and (ii) are incorrect

Answer: C

55. Discounted cash flow criteria for investment appraisal does not include

A. Benefit cost ratio
B. Net present value
C. Internal rate of return
D. Accounting rate of return

Answer: A

56. Which are the determinants of dividend policy?

A. Liquidity Position
B. Legal Requirement
C. Working Capital Requirement
D. All of the above

Answer: D

57. Which ratio explains that how much portion of earning is distributed in the form of dividend?

A. Pay-out Ratio
B. Equity-Debt Ratio
C. Earning Yield Ratio
D. Dividend-Debt Ratio

Answer: A

58. After declaration dividends are paid to the shareholders as per the provision of

A. RBI Act
B. SEBI Act
C. Indian Contract Act
D. Indian Companies Act

Answer: B

59. Dividend Policy must be

A. Fixed
B. Flexible
C. Flexible and Fixed both
D. None of these

Answer: B

60. Which of the following is not a capital budgeting decision?
A. Merger
B. Inventory level
C. Expansion programme
D. Replacement of an asset

Answer: B

61. Which one is the principle of capital structure?
A. Risk principle
B. Cost principle
C. Control principle
D. All of these

Answer: D

62. The relationship between the cost of equity and financial leverage in accordance with MM proposition II can be expressed by
A. R = Equity /100
B. R = Equity / Income
C. R = (Equity / Debt) x 100
D. None of these

Answer: C

63. What is the advantage of 'NPV Method'?
A. This method can be allied where cash inflows are even
B. It takes into account the objective of maximum profitability
C. This method considers the entire economic life of the project
D. All of these

Answer: D

64. Price Ratio Method is
A. Asset Method
B. Growth Method

C. Earning Yield Method

D. Dividend Yield Method

Answer: C

65. The Gordon 's model of dividend policy is based on

A. The firm has perpetual life

B. In the firm r and K remain unchanged

C. The firm only uses retained earnings for financing its investment, it is all equity firm

D. All of the above

Answer: D

66. Current Ratio can be computed by

A. Assets / Stock

B. Stock / Debtors

C. (Stock + Cash + Share) /100

D. Current Assets / Current Liabilities

Answer: D

67. Degree of operating leverage can be computed by

A. Sales / Fixed Cost

B. % Sales / % Profit

C. Sales /Cost of production

D. (% Δ in Operating Income) / (% Δ in sales )

Answer: A

68. Debt Equity Ratio is computed by

A. Reserve / Capital

B. Assets / Current Assets

C. (Reserve + Capital + Loss) / 2

D. Total Liabilities / Shareholders Equity

Answer: D

69. Suppliers and creditors of a firm are interested in

A. Debt position

B. Liquidity position

C. Profitability position

D. Market share position

Answer: B

70. The Present values of total cash inflows should be compared with Present value of

A. Income

B. Investment

C. Cash Inflows

D. Cash Outflows

Answer: D

71. Which is the form of dividend?

A. Cash dividend

B. Bond dividend

C. Stock dividend

D. All of these

Answer: D

72. Which is the type of dividend?

A. Interest

B. Cash Dividend

C. Flexible Capital

D. Profit cum-reserve

Answer: B

73. Dividend is given on

A. Debt Capital

B. Equity Capital

C. Bank Loan (long term)

D. Borrowed (Debenture) Capital

Answer: B

74. Which type of function may be performed by the finance manager for management of profitability?

A. Pricing

B. Cost control

C. Forecasting future Profits

D. All of the above

Answer: D

75. Dividend is Product of

A. Productivity
B. Management
C. Dividend Policy
D. Plant and Machinery

Answer: C

76. Which is not the form of dividend?
A. Stock
B. Regular
C. Property
D. Zero Dividend

Answer: D

77. The dividend on equity shares is only paid when dividend on ____________has already been paid.
A. Bond
B. Debenture
C. Equity Shares
D. Preference Shares

Answer: D

78. A company pays dividend at the
A. End of the financial year
B. End of the month
C. End of the week
D. All of the above

Answer: A

79. Financial planning starts with the preparation of
A. Cash budget
B. Master budget
C. Balance sheet
D. None of the above

Answer: D

80. Which ratio explains that how much portion of earning is distributed in the form of dividend?
A. Pay-out Ratio
B. Equity-Debt Ratio
C. Earning Yield Ratio
D. Dividend-Debt Ratio

Answer: A

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81. Capital Employed is

A. Bank

B. Cash + Bank

C. Assets + Cash

D. Shareholders Funds + Long Term Funds

Answer: D

82. Factoring is a

A. Cost of Sales

B. Production Plan

C. Financial Planning

D. New Financial Service

Answer: D

83. A sound dividend policy contains the ________ features.

A. Stability

B. Distribution of dividend in cash

C. Gradually Rising dividend Rates

D. All of the above

Answer: D

84. Factoring involves

A. Provision of Specialised Services relating to credit investigation

B. Purchase and Collection of debts

C. Sales ledger management

D. All of the above

Answer: D

85. Which is the function of finance as per John J. Hampton ?

A. Managing funds

B. Managing assets

C. Liquidity function

D. All of the above

Answer: D

86. Dividend is allocated to the shareholders of

A. The Debtors

B. The Creditors

C. The Customer

D. The Company

Answer: D

87. Dividend is the portion of

A. Debt
B. Profit
C. Assets of the company
D. Current Assets of the company

Answer: B

88. If the company announces dividend then it is necessary to pay it

A. Within five years
B. Within six years
C. Within seven years
D. Within certain time

Answer: D

89. Which method of capital budgeting called benefit cost ratio?

A. Payout period method
B. Pay back period method
C. Profitability Index method
D. Net present value method

Answer: C

90. Which is the determinants of Capital Structure?

A. Tax
B. Control
C. Government Policy
D. Requirement of Investors

Answer: C

91. The significance of capital budgeting arises mainly due to the

A. Large Investment
B. Irreversible in nature
C. Complicacies of Investment decisions
D. All of the above

Answer: D

92. Which is the traditional method of Capital budgeting?

A. Payout Method
B. Pay back Method
C. Accounting Method
D. All of the above

Answer: D

93. Profit maximisation is

A. Primary objective of business
B. It is indicator of economic efficiency
C. Measurement of Success of business decisions
D. All of the above

Answer: D

94. If the annual cash inflows are constant, the pay-back period can be computed by clividing cash outlay by

A. Profit
B. Expenses
C. Annual cash inflow
D. Annual Sales flows

Answer: C

95. The Present Value of all inflows are cumulated in

A. Order of Time
B. Order of Cash
C. Order of Sales
D. Order of Investment

Answer: A

96. The Financial Management is responsible for the

A. Recording the transaction
B. Finance function of the firm
C. Controlling of the organisation
D. Organising training programmes

Answer: B

97. "Capital budgeting as acquiring inputs with long run return". Who said?

A. Lynch
B. J. Betty

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C. Richard and Green
D. Charles Horngreen

Answer: C

98. The need of capital budgeting in a firm arises on account of the

A. Selection of the best project
B. Analysis of capital expenditure
C. Control over capital expenditure
D. All of the above

Answer: D

99. When Capital Redemption Reserve Account is opened ?

A. At the time of Reserve
B. At the time of equity repayment
C. At the time of Preference Share Redemption
D. All of the above

Answer: C

100. Which is the Principle of Capital Structure?

A. Risk principle
B. Cost and control principle
C. Both (a) and (b)
D. None of the above

Answer: C