CH. 1 : FINANCIAL MANAGEMENT - AN INTRODUCTION

1. Objective of Financial Management is :
(a) Management of Liquidity,
(b) Maximization of Profit,
(c) Maximization of Shareholders' Wealth,
(d) Management of Fixed Assets.

2. In Financial Management, cash flow is same thing as :
(a) Cash Profit,
(b) Profit before Tax,
(c) Operating Profit,
(d) None of the above.

3. What is ignored in Principle of Profit Maximization ?
(a) Time Value of Money,
(b) Risk,
(c) Wealth Creation,
(d) All of the above.

4. Which of the following are two basic concepts of financial management ?
(a) Costs and Expenses,
(b) Risk and Return,
(c) Debit and Credit,
(d) Receipts and Payment.

5. In Financial Management, the term risk refers to :
(a) Chances of Incurring Losses,
(b) Variability of Future Outcome,
(c) Chances of no Return,
(d) None of the above.

6. Financial Management refers to :
(a) Management of Current Assets,
(b) Management of All Assets,
(c) Financial Decision-making,
(d) Management of Liabilities.

7. Which of the following is included in financial decision making ?
(a) Investment Decision,
(b) Financing Decision,
(c) Dividend Decision,
(d) All of the above.

8. Which of the following is considered as complementary to Financial Management ?
(a) Cost Accounting,
(b) Management Accounting,
(c) Financial Accounting,
(d) Corporate Accounting.

9. Maximization of Wealth of Shareholders is reflected in:
(a) Sales Maximization,
(b) No. of Shareholders,

(c) Market Price of Equity Shares,
(d) SENSEX.
10. Which is not a part of Investment Decision in Financial Management ?
(a) Dividend Payout Decision,
(b) Capital Budgeting Decision,
(c) Working Capital Management,
(d) Credit Policy towards Customers.
11. Focal Point in Financial Management is :
(a) Increasing Sales of the firm,
(b) Creating Shareholders' Value,
(c) Increasing Profit,
(d) Increasing Market Share.
12. Which of the following variables defines and explains the concepts of finance ?
(a) Inflation,
(b) Capital Structure,
(c) Risk-free Rate of interest,
(d) Risk and Return.
13. In a Public Sector Company, the financial goal of the firm is to:
(a) Maximize the Market Price of Equity,
(b) Maximize the Dividends to Govt.,
(c) Maximize the PV of Equity Returns,
(d) None of the above.
14. Maximizing the wealth of the shareholders is reflected in :
(a) Maximizing MP of Equity Shares,
(b) Maximizing Cash Balance,
(c) Maximizing Retained Earnings,
(d) Maximizing Issued Capital.
15. Which of the following is not a function of a finance manager ?
(a) Procurement of Fund,
(b) Allocation of Fund,
(c) Maintaining balance between Risk and Return,
(d) Manoeuvring the Share Price.
16. Market value of the firm is a result of:
(a) Investment Decision,
(b) Financing Decision,
(c) Working Capital Management,
(d) Risk-Return Trade off.
17. Which of the following represents the financing decision ?
(a) Designing Optimal Capital Structure,
(b) Declaring Dividend,
(c) Paying Interest on Loans,
(d) None of the above.
18. Dividend decision is related to :
(a) Right Issue of share,

(b) Reinvestment Requirement,

(c) Cash Flow Statement,

(d) None of the above.

[Answers : 1(c); 2(d); 3(d); 4(b); 5(b); 6(c); 7(d); 8(c); 9(c); 10(a); 11(b); 12(d); 13(c); 14(a); 15(d); 16(d); 17(a); 18(b)]

CH. 2 : THE MATHEMATICS OF FINANCE

MULTIPLE CHOICE QUESTIONS

1. Discounting technique is used to find out:
(a) Terminal Value
(b) Compounded Value
(c) Present Value
(d) Future Value.
2. The adjustment for time value of money is made through:
(a) Interest Rate
(b) Inflation Rate
(c) Growth Rate
(d) None of the above.
3. Equal Annual Cash Flows occurring at the end of each year for certain period are known as :
(a) Annuity
(b) Perpetuity
(c) Annuity Due
(d) Deferred Payments.
4. Equal annual amounts occurring in the beginning of certain years are known as :
(a) Annuity
(b) Perpetuity
(c) Annuity Due
(d) Deferred Payments.
5. Present Value of a future cash flow would decrease if :
(a) Discount Rate is reduced
(b) Discount Rate is increased
(c) Time Period is decreased
(d) All of the above.
6. Future cash flows are converted to present values, so that these can be:
(a) Aggregated
(b) Compared
(c) Used in Decision-making
(d) All of the above.
7. 'Rule of 72' is a short-cut method to estimate the :
(a) Present Values
(b) Compounding Effect
(c) Both (a) & (b)
(d) None of the above.
8. Effective Interest Rate is a factor of:
(a) Compounding Frequency
(b) Basic Rate of Interest
(c) Both (a) and (b)
(d) None of the above.
9. A series of Constant Cash flows occurring at regular intervals forever is known as :
(a) Growing Annuity

(b) Perpetuity
(c) Growing Perpetuity
(d) Annuity

10. Future Value and Present Value, both are based on :
(a) Number of Time periods
(b) Interest Rate
(c) Both (a) and (b)
(d) None of the above.

11. If the Interest Rate is greater than zero, which of the following series you would prefer to receive :

	Year 1	Year 2	Year 3	Year 4
(a)	Rs. 500	Rs. 400	Rs. 300	Rs. 200
(b)	Rs. 200	Rs. 300	Rs. 400	Rs. 500
(c)	Rs. 350	Rs. 350	Rs. 350	Rs. 350

(d) Any of the above as all are equal in total amount.

12. Time Value of Money is an important concept in finance because it takes into account:
(a) Risk
(b) Time
(c) Compound Interest
(d) All of the above.

13. Which of the following is called an annuity :
(a) Lump Sum after few years
(b) A Series of Equal and Regular Amounts
(c) A Series of Unequal Amounts
(d) A Series of Equal and Irregular Amounts.

14. An investor wants to increase the Present Value. The rate of discount applied for should be :
(a) Increased
(b) Decreased
(c) Any of (a) and (b)
(d) None of the above.

15. If n = 1 and Rate of interest > zero, which of the following interest factor is equal to one :
(a) Present Value Factor
(b) Compound Value Factor
(c) Present Value Annuity Factor
(d) None of the above.

16. If Time is ‘n’, Rate of Interest is ‘k’ then (1 + k)" may be called:
(a) Present Value Factor
(b) Compound Value Factor
(c) Compound Value Annuity Factor
(d) None of the above.

17. In a Loan Repayment Schedule, the interest amount paid each period :

(a) Remained Constant
(b) Increases
(c) Decreases
(d) None of the above.
18. Future Value of an annuity is :
(a) Equal to Annuity Amount
(b) Less than Annuity Amount
(c) More than total of Annuity Amount
(d) None of the above.
19. Concept of Future Value and Present Value are :
(a) Proportionately related
(b) Inversely related
(c) Directly related
(d) Not related
20. If a student is awarded scholarship receivable over next 12 months, what calculation he should use to find out the worth of scholarship today?
(a) Present Value of an Amount
(b) Future Value of an Amount
(c) Present Value of an Annuity
(d) Future Value of an Annuity
21. A student deposits some amount daily to accumulate Rs. 5,000 to pay his tuition fees after one year. Which of the following compounding methods of interest should be opted by him:
(a) Compounded Quarterly
(b) Compounded Daily
(c) Compounded Half-yearly
(d) Compounded Annually.
22. Which of the following is the highest value?
(a) Present Value of Rs. 1,000 receivable after one year
(b) Total Value of Rs. 1,000 deposited in Savings Bank A/c for one year
(c) Rs. 1,001
{d) Rs. 1,000 deposited in Fixed Deposit @ 5.50% for one year.
23. Present Value can be calculated with the help of formula:
(a) (1 + r)n
(b) 1/(1 + r)n
(c) (1 + r)n/1
(d) None of the above.
24. Present Value of a Rupee receivable after one year is :
(a) More than One Rupee
(b) Less than One Rupee
(c) Equal to One Rupee
(d) Equal to Future Value.
25. Future Value of One Rupee invested today is :
(a) More than One Rupee

(b) Equal to One Rupee

(c) Equal to Present Value

(d) Less than One Rupee.

[Answers: 1. (c), 2. (a), 3. (a), 4. (c), 5. (b), 6. (d), 7. (b), 8. (c), 9. (b),
10. (c), 11. (a), 12. (d), 13. (b), 14. (b), 15. (d), 16. (b), 17. (c), 18. (c),
19. (b), 20. (c), 21. (b), 22. (d), 23. (b), 24. (b), 25. (a)]

CH. 3 : CAPITAL BUDGETING - AN INTRODUCTION

MULTIPLE CHOICE QUESTIONS

1. Capital Budgeting is a part of:

(a) Investment Decision,

(b) Working Capital Management,

(c) Marketing Management,

(d) Capital Structure.

2. Capital Budgeting deals with :

(a) Long-term Decisions,

(b) Short-term Decisions,

(c) Both (a) and (b),

(d) Neither (a) nor (b).

3. Which of the following is not used in Capital Budgeting ?

(a) Time Value of Money,

(b) Sensitivity Analysis,

(c) Net Assets Method,

(d) Cash Flows.

4. Capital Budgeting Decisions are :

(a) Reversible,

(b) Irreversible.

(c) Unimportant,

(d) All of the above.

5. 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.

6. Which of the following is not a capital budgeting decision ?

(a) Expansion Programme,

(b) Merger,

(c) Replacement of an Asset,

(d) Inventory Level.

7. A sound Capital Budgeting technique is based on :

(a) Cash Flows,

(b) Accounting Profit,

(c) Interest Rate on Borrowings,

(d) Last Dividend Paid.

8. Which of the following is not a relevant cost in Capital Budgeting ?

(a) Sunk Cost,

(b) Opportunity Cost,

(c) Allocated Overheads,

(d) Both (a) and (c) above.

9. Capital Budgeting Decisions are based on :

(a) Incremental Profit,

(b) Incremental Cash Flows,
(c) Incremental Assets,
(d) Incremental Capital.

/ 0. Which of the following does not effect cash flows from a proposal:
(a) Salvage Value,
(b) Depreciation Amount,
(c) Tax Rate Change,
(d) Method of Project Financing.

11. Cash Inflows from a project include :
(a) Tax Shield of Depreciation,
(b) After-tax Operating Profits,
(c) Raising of Funds,
(d) Both (a) and (b).

12. Which of the following is not true with reference to capital budgeting ?
(a) Capital budgeting is related to asset replacement decisions,
(b) Cost of capital is equal to minimum required rate of return,
(c) Existing investment in a project is not treated as sunk cost,
(d) Timing of cash flows is relevant.

13. Which of the following is not followed in capital budgeting ?
(a) Cash flows Principle,
(b) Interest Exclusion Principle,
(c) Accrual Principle,
(d) Post-tax Principle.

14. Depreciation is incorporated in cash flows because it:
(a) Is unavoidable cost,
(b) Is a cash flow,
(c) Reduces Tax liability,
(d) Involves an outflow.

15. Which of the following is not true for capital budgeting ?
(a) Sunk costs are ignored,
(b) Opportunity costs are excluded,
(c) Incremental cash flows are considered,
(d) Relevant cash flows are considered.

16. Which of the following is not applied in capital budgeting ?
(a) Cash flows be calculated in incremental terms,
(b) All costs and benefits are measured on cash basis,
(c) All accrued costs and revenues be incorporated,
(d) All benefits are measured on after-tax basis.

17. Evaluation of Capital Budgeting Proposals is based on Cash Flows because:
(a) Cash Flows are easy to calculate,
(b) Cash Flows are suggested by SEBI,
(c) Cash is more important than profit,
(d) None of the above.

18. Which of the following is not included in incremental cash flows ?

(a) Opportunity Costs,
(b) Sunk Costs,
(c) Change in Working Capital,
(d) Inflation effect.

19. A proposal is not a Capital Budgeting proposal if it:
(a) is related to Fixed Assets,
(b) brings long-term benefits,
(c) brings short-term benefits only,
(d) has very large investment.

20. In Capital Budgeting, Sunk cost is excluded because it is :
(a) of small amount,
(b) not incremental,
(c) not reversible,
(d) All of the above.

[Answers : 1(a), 2(a), 3(c), 4(b), 5(d), 6(d), 7(a), 8(d), 9(b), 10(d), 11(d), 12(c), 13(c), 14(c), 15(b), 16(c), 17(c), 18(b), 19(c), 20(b)],