Name of the Professor :	Class : TYBFM (FINANCIAL MANAGEMENT)
Examination : October 2020	Semester : VI
Subject : FINANCIAL MANAGEMENT II	Paper Code :

MULTIPLE CHOICE QUESTION (MCQ) QUESTION BANK
FINANCIAL MANAGEMENT II
TYBFM-Semester 6 – OCTOBER 2020

Sr. No.	Question	Option A	Option B	Option C	Option D	Correct Answer	UNIT
1	______ is based on the assumption that company is a going concern.	Yield Value	Asset Backing Method	Intrinsic Value Method	Net Asset Method	A. Yield Value	1
2	____ is the excess of actual profit over the normal profit of the business.	Net Profit	FMP	NRR	Super Profit	B. Super Profit	1
3	The ____ method considers the current earning capacity in relation to future trends in profits.	Yield Value	Asset Backing Method	Intrinsic Value Method	Net Asset Method	A. Yield Value	1
4	In case of weighted Average method maximum weight is given to the ____ year.	First	Last	Second	Third	B. Last	1
5	Dividend Payout Ratio = DPS/_____	MPS	EPS	P/E Ratio	Number of shares	B. EPS	2
6	_____ are business assets and therefore they are included	Trading investments	Non-Trading Investments	Personal investments	Net Assets	A. Trading investments	2

	while calculating capital employed						
7	_____ model assumes that the future streams of dividends is constant and non-growing.	Constant Growth	Variable Growth	Zero Growth	No Growth	C. Zero Growth	2
8	_____ is the possibility that investors will lose money when they invest in a company.	Interest Rate Risk	Systematic Risk	Unsystematic Risk	Financial Risk	D. Financial Risk	2
9	_____ considers the derivations of all possible returns from their expected value.	Range	Variance	Standard Deviation	Return	B. Variance	2
10	_____ bonds are free from insolvency risk and therefore their returns are also the lowest.	Government	Private	Debenture	Equity	A. Government	2
11	CAPM Stands for_____	Capital & Private model	Capital Asset Pricing model	Cash Asset Pricing model	Capital Asset Preference method	A. Capital Asset Pricing model	2
12	_____ relates to the Assets side of the Balance Sheet.	Operating leverage	Financial leverage	Combined leverage	No leverage	A. Operating leverage	2
13	_____ relates with financing decisions.	Operating leverage	Financial leverage	Combined leverage	No leverage	B. Financial leverage	2
14	Debt /Equity ratio = _____ /Net worth .	Equity	Preference	Debt	Assets	C. Debt	2
15	Degree of combined Leverage =	EBT	EAT	EBIT	SALES	A. EBT	2

	Contribution /_____.						
16	____ leverage is the extent to which a firm commits itself to high levels of fixed operating costs.	Operating leverage	Financial leverage	Combined leverage	No leverage	A. Operating leverage	2
17	When two mutually exclusive financial plans do generate the level of EBIT where the EPS is the same such a situation is referred to as ___.	Cost of Capital	Indifferent point level	Dilution of Stake	Solvency	B. Indifferent point level	2
18	Net Operating Income approach theory is propounded by _______	Durand	Keynes	Marshal	Robinson	A. Durand	2
19	P/E Ratio = MPS /_______	DPS	EPS	Dividend Yield	Number of Shares	B. EPS	2
20	Cost of Debts (K_d) is lower than _______	(K_e)	(K_y)	(K_p)	(K_e), (K_p),(k_r)	(K_e), (K_p),(k_r)	2
21	____ are the residual owners of the firm.	Equity shareholders	Preference shareholders	Debentures	Bonds	A. Equity shareholders	2
22	Under ______theory investors value dividends and capital gains equally.	Irrelevance	Relevance	Residual dividend policy	Dividend Stability Policy	A. Irrelevance	2
23	_____ reduces uncertainly for investors and provides them with income.	Dividend Stability Policy	Irrelevance	Relevance	Residual dividend policy	A.Dividend Stability Policy	2
24	Cash is _____ Asset.	Fixed	Liquid	Non-Current	Fictitious	Non-Current	3

25	____ motive refers to holding of cash in order to meet the routine transactions.	Speculative	Transaction	Precautionary	Compensating	B. Transaction	3
26	__ collection techniques helps to improve the cash inflows.	Re-active	Pro-active	Non-active	Hyper-active	B. Pro-active	3
27	_____ is a non cash item not included in cash budget.	Sale proceeds of Assets	Depreciation	Payment of dividend	Receipt of commission	B. Depreciation	3
28	_____ is the cost of additional funds.	Nominal cost	Default cost	Sales cost	Marginal cost	D. Marginal cost	3
29	____ summarises the cash budget.	Income & Expenses	Asset & Liabilities	Receipt & Payment	Trading Account	C. Receipt and Payment	3
30	The cost incurred to collect the dues from customers is called as _____.	Collection cost	Administrator cost	Default cost		A. Collection cost	3
31	5 C of credit does not include _______.	Collateral	Character	Condition	Credit Rating	C. Credit Rating	3
32	Ageing of debtors measures _____.	Debtors outstanding	Debtors defaulting	Debtors payment	Long term solvency	A. Debtors outstanding	3
33	ABC analysis shows classification of Debtors in _____.	A category	B category	C category	ABC category	ABC category	3
34	____ is the cost of an opportunity foregone as a result of the rejection of the alternatives.	Default Cost	Collection Cost	Opportunity Cost	Capital Cost	C. Opportunity Cost	3
35	Receivables may be represented by bills	Creditors	Cash Sales	Bills Payable	Debtors	D. Debtors	4

	receivables or _____ balance.						
36	_____ are not accounted for under recourse factoring.	Receivbles	Creditors	Cash Sales	Bad Debts	D. Bad Debts	4
37	_____ refers to customers willingness to pay the dept.	Capacity	Collateral	Condition	Character	D. Character	4
38	If sales is 100, variable cost is 40 the P/V ratio would be __.	140	60	80	70	B. 60	4
39	_____ cost arises if customers fail to meet their obligations on due dates.	Delinquency	Capital	Default	Collection	C. Default	4
40	Interest on loan is a ________ cost	Fixed	Variable	Semi variable	Negligible	A. Fixed	4
41	The _______ decision effect the value of the firm through the earnings available to the equity shareholders	BEP	Capital structure	P/E ration	Dividend yield	B. Capital structure	4
42	K_e = DPS/ _______ X 100 + growth	MPS	EPS	P/E RATIO	Dividend payout	A. MPS	4
43	_______ indicates the effect on earnings due to rise in fixed cost funds.	Leverage	Financial Leverage	Operating Leverage	Combined Leverage	B. Financial Leverage	3
44	Cash Balance is _______.	Permanent Asset	Current Asset	Fictitious Asset	Intangible Asset	B. Current Asset	3

45	Customer are created by ____	Cash sales	Credit sales	Cash & credit sales	Consignment sales	B. Cash & credit sales	3
46	Following is not a cost of maintaining receivables ____	Ordering cost	Collection cost	Defaulting cost	Financing cost	A. Ordering cost	4
47	2/10 implies _____	2% cash discount	Payment within 10 days	2% cash discount allowed for payment within 10 days	No cash discount	C. 2% cash discount allowed for payment within 10 days	4
48	Letter of credit (L/C) is issued by _______.	Seller	Buyer	Banker	Consignment	C. Banker	4
49	Cash held to protect against uncertainties due to ____	Speculative	Transaction	Precautionary	Compensating	C. Precautionary	4
50	Cash discount will increase __	Debtors	Sales	Collection Period	Credit Standard	B. Sales	4

Sr. No	Question	Option A	Option B	Option C	Option D	Correct Answer
51	The primary objective of financial management is _______ maximisation.	Wealth	Gain	Loan Fund	Own Fund	Wealth
52	Reliance Ltd has Rs 7,00,000, 10% Debentures of Rs 100 each. The tax rate is 50%. Calculate the cost of Debt.	50%	25%	15%	5%	5%

53	Financial decisions are based on ________	cost of capital	capital	fixed assets	historical cost	cost of capital
54	Walter's Model suggests 100% DP Ratio when _______	Ke = r	Ke< r	Ke> r	Ke =0	Ke> r
55	**Sales Rs 40 lakhs; Variable cost Rs 20 lakhs; Fixed cost Rs 5 lakhs. Calculate operating leverage.**	**2.67**	**2.50**	**1.33**	**2.75**	**1.33**
56	If Operating Leverage is 3 and Financial Leverage is 5 then Combined Leverage will be	15	3/5	3.5	3	**15**
57	If the sales of the firm are Rs 60,00,000 and the average debtors are Rs 15,00,000 then the receivables turnover is ________	4 times	25%	400%	0.25 times	4 times
58	If the expected level of EBIT exceeds the indifference point.	Debt financing will be advantages	Equity financing will be advantages	EPS will reduce	No effect on EPS	Debt financing will be advantages
59	Earnings per share remains constant is the assumption of _____ model.	Gordon	Fayol	Walter	Fayol& Gordon	Walter
60	Operating leverage is 1.26 and financial leverage is	2.90%	1.29%	3.29%	4.50%	1.29%

	1.02 The combined leverage is					
61	Interest on Debentures Rs 4,00,000; preference dividend Rs 2,00,000 Tax rate is 4 %. If EBIT is Rs 15,00,000 the financial leverage is	1.75	2.88	1.96	3.75	1.96
62	**Cost of 12% Preference shares issued at par, assuming tax rate to be 30% will be_____.**	**8.4%**	**10%**	**12%**	**15.6%**	**12%**
63	Following is not a function of a finance manager	Marketing	Budgeting	Forecasting	Financing	Marketing
64	Leverage analyses relationship between	Equity and Debt	Debentures & loans	Financial & operating leverage	Short term loan & equity	Equity and Debt
65	Net Profit after interest & tax Rs 2,22,000; Equity Capital (10 each) Rs1,00,000. The Earning Per Share is	20.2	22.2	26	30.35	22.2
66	Financial objective of a firm is ____________	to increase return on investment.	to increase efficiency of organisation.	to increase loyalty of the employees.	to increase long term fund	to increase return on investment.

67	Higher the risk higher the _______.	Gain	Wealth	Own fund	Loan fund	Gain
68	Cost of debts depends on the _____.	Rate of interest	historical cost	future cost	Rate of dividend	Rate of interest
69	EBIT Rs 26,00,000; Interest Rs 4,80,000. Calculate Financial Leverage.	2	1.23	1.50	2.50	1.23
70	**Sales Rs 40 lakhs; Variable cost Rs 25 lakhs; Fixed cost Rs 6 lakhs. Calculate operating leverage.**	**1.67**	**1.50**	**2.0**	**1.75**	**1.67**
71	**Which of the following has the highest cost of capital?**	**Equity shares**	**Loans**	**Bonds**	**Preference**	**Equity shares**
72	Operating leverage is used to measure ________	Financial Risk	Business Risk	Market Risk	Economic Risk	Financial Risk
73	A firm has EBIT of Rs 50,000. Market value of debt is Rs 80,000 and overall capitalization rate is 20%. Market value of firm under NOI approach is _____.	2,50,000	1,70,000	30,000	1,30,000	1,70,000
74	Which of the following cost of capital require tax adjustment?	Cost of Equity Shares	Cost of Preference Shares	Cost of Debentures	Cost of Retained Earnings.	Cost of Debentures

75	EPS stands for ____________.	Expenses per share	Earnings per share	Earning per stock	Earning per saving	Earnings per share
76	Increased operating profit creates ________ ________.	Cash flow	Cash surplus	Cash Manufacture	Cash deficit	Cash surplus
77	Cash budget is an aspect of ________ ________.	Cash surplus	Cash flow	Cash Manufacture	Cash imbalance	Cash Manufacture
78	The uncertainty about expected return from a marketable security attributable to change in interest rate is ___________	Interest Rate Risk	Default risk	Credit Risk	Dividend risk	Interest Rate Risk
79	One of the following is not an objective of cash management –	Cash planning	Cash imbalance	Holding optimum cash	Investment of idle cash	Cash imbalance
80	Surplus cash can be managed by	Investment policy	Bank loan	Inventory control	Receivable management	Investment policy

81	In monthly cash report following comes under cash receipt	Cash sales	Cash purchases	Wages	Taxes	Cash sales
82	Miller – orr model deals with	Optimum stock	Optimum cash balance	Optimum receivable	Maximum Cash	Optimum cash balance
83	6/10 Implies	6 % Cash discount	Payment within 10 days	6 % Cash discount allowed for payment within 10 days.	10 % Cash discount allowed for payment within 6 days.	6 % Cash discount allowed for payment within 10 days.
84	Increase in accounts receivable	Decreases working capital	Increases working capital	Increases fixed capital	Decreases fixed capital	Increases working capital
85	Ageing schedule shows	Age of customers in years	Amount collected	Goods sold	Goods purchased	Age of customers in years

86	Following is not an element of credit policy	Credit terms	Collection policy	Cash discount terms	Sales price	Sales price
87	Sales are Rs6,30,000 , Default is 1.5%. bad debt is 1% . Calculate the default cost.	Rs 9,450	Rs 3,750	Rs 7,450	Rs 3,570	Rs 9,450
88	Fixed cost Rs 23,00,000 variable cost is Rs 3,00,000. Credit period 2 months RoI 20%. The return will be	Rs 86,666	Rs 38,333	Rs 1,47,500	Rs 1,00,000	Rs 86,666
89	Fixed cost is Rs 2,70,000 variable cost is Rs 12,60,000. Credit period 1 month RoI is 40%. The RoD investment in debtors is	Rs 51,000	Rs 60,000	Rs 70,000	Rs 40,000	Rs 51,000
90	Following is not a cost of maintaining receivables	Ordering cost	Collection cost	Defaulting cost	Financing cost	Ordering cost
91	Which of the following is the variability of return on stocks or portfolios associated with changes in return on the market as a whole?	Systematic risk	Unsystematic risk	Standard Deviation	Co-efficient of variation	Systematic risk

92	An investment proposal should be judged and accepted?	A return equal to the return require by the investor	A return more than required by investor	A return less than required by investor	A return should not be considered	A return more than required by investor
93	There is a relationship between risk and return ______	When risk increases , return decreases	When risk increases , return increases	When risk increases , return unchanged	When risk decreases , return increases	When risk increases , return increases
94	Expected returns on weighted average on assets in portfolio is considered as ___	Weighted portfolio	Expected return on portfolio	Co-efficient of portfolio	Expected assets	Expected return on portfolio
95	An amount invested is Rs 5,000 and an amount received is Rs 4,000 then return will be a)	Rs 1000	– Rs 1000	–Rs 9000	Rs 9000	– Rs 1000
96	An additional desired compensation by investors for assuming an additional risk on investment is classified as _______.	risk premium.	Investor premium	Additional premium	Assumed premium	risk premium.

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<tr><td>97</td><td>Method and model used to analyze relationship between rates of return and risk is classified as</td><td>capital asset pricing model.</td><td>portfolio asset pricing model</td><td>asset market pricing model</td><td>portfolio pricing model</td><td>capital asset pricing model.</td></tr>
<tr><td>98</td><td>The probability distribution of security N is given below:
<table>
<tr><th>Probability</th><th>Return (%)</th></tr>
<tr><td>0.30</td><td>25</td></tr>
<tr><td>0.50</td><td>20</td></tr>
<tr><td>0.20</td><td>15</td></tr>
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The risk of the return of the security will be :</td><td>60%</td><td>28%</td><td>20.5%</td><td>24%</td><td>20.5%</td></tr>
<tr><td>99</td><td>Transaction motive for holding cash is</td><td>Daily operations</td><td>payment of dividend</td><td>Purchase of assets</td><td>Safety</td><td>Daily operations</td></tr>
<tr><td>100</td><td>Cash discount will increase</td><td>Collection</td><td>Debtors period</td><td>Sales</td><td>Bad debts</td><td>Sales</td></tr>
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