Objective Questions and Answers of Financial Management

1. State whether each of the following statements is True (T) or False(F)
(i) Financial statements are an important source of information to shareholders and stakeholders.
(ii) Both the BS and the IS shows the financial position of fen at the end of the year.
(ii) BS of a company must be prepared in the horizontal format only.
(iv) Preparation of Profit & Loss Appropriation A/c is a requirement under the Companies Act, 1956.
(v) Ratio Analysis is the only technique of analysis of financial statements.
(vi) Methodical presentation of financial statements helps in Nation of various ratios.
(vii) In Common Size Statements, each item is expressed as a percentage of some common items (total).
(viii) Trend Percentage Analysis helps in Dynamic Analysis.
(ix) Liquidity Ratios help in analysing the cash position of the firm.
(x) In calculation of Acid Test Ratio, Inventory is included in current assets.
(xi) Working Capital Turnover Ratio may be classified as an Activity Ratio.
(xii) Debt-Equity Ratio is a measure of long-term solvency of a firm.
(xiii) GP Ratio and NP Ratio give the profitability of the firm from the point of view of the shareholders.
(xiv) Return on Equity and Earnings per Share are one and the same thing.
(xv) DU PONT Analysis looks into the elements of profits.
(xvi) Ratio Analysis provides the solution to the financial problems.
Answers: (i) T, (ii) F, (iii) F, (iv) F, (v) F, (vi) T, (vii) T, (viii) T, (ix) F, (x) F, (xi) T, (xii) T, (xiii) F, (xiv) F, (xv) T, (xvi) F.]

2. Multiple Choice Questions:
1. Accounting Ratios are important tools used by (a) Managers, (b) Researchers,(c)Investors, (d) All of the above
2. Net Profit Ratio Signifies:(a) Operational Profitability, (b) Liquidity Position,(c) Big-term Solvency,(d)Profit for Lenders.
3. Working Capital Turnover measures the relationship of Working Capital with:
(a)Fixed Assets,(b)Sales,(c)Purchases,(d)Stock.
4. In Ratio Analysis, the term Capital Employed refers to:
(a)Equity Share Capital,(b)Net worth,(c)Shareholders' Funds,(d)None of the above.
5. Dividend Payout Ratio is:
(a)PAT Capital, (b)DPS ÷ EPS,(c) Pref. Dividend ÷ PAT, (d) Pref. Dividend ÷ Equity Dividend.
6. DU PONT Analysis deals with:
(a) Analysis of Current Assets, (b)Analysis of Profit, (c)Capital Budgeting, (d) Analysis of Fixed Assets.
7. In Net Profit Ratio, the denominator is:(a)Net Purchases,(b)Net Sales, (c) Credit Sales, (d) Cost of goods sold.
8. Inventory Turnover measures the relationship of inventory with:
(a) Average Sales, (b)Cost of Goods Sold, (c)Total Purchases, (d) Total Assets.
9. The term 'EVA' is used for:
(a)Extra Value Analysis, (b)Economic Value Added,(c)Expected Value Analysis,(d)Engineering Value Analysis.
10. Return on Investment may be improved by:
(a)Increasing Turnover,(b) Reducing Expenses,(c)Increasing Capital Utilization,(d)All of the above.
11. In Current Ratio, Current Assets are compared with:
(a)Current Profit, (b)Current Liabilities,(c)Fixed Assets, (d)Equity Share Capital.
12. ABC Ltd. has a Current Ratio of 1.5: 1 and Net Current Assets of Rs. 5,00,000. What are the Current Assets?
(a)Rs. 5,00,000, (b)Rs. 10,00,000, (c)Rs. 15,00,000, (d) Rs. 25,00,000
13. There is deterioration in the management of working capital of XYZ Ltd. What does it refer to?
(a)That the Capital Employed has reduced,(b)That the Profitability has gone up,(c)That debtors collection period has increased,(d)That Sales has decreased.
14. 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.
75. Debt to Total Assets Ratio can be improved by:
(a)Borrowing More,(b)Issue of Debentures,(c)Issue of Equity Shares,(d)Redemption of Debt.
16. Ratio of Net Income to Number of Equity Shares known as:
(a)Price Earnings Ratio, (b) Net Profit Ratio,(c)Earnings per Share, (d) Dividend per Share.
17. Trend Analysis helps comparing performance of a firm
(a)With other firms,(b)Over a period of firm,(c)With other industries,(d) None of the above.
18. A Current Ratio of Less than One means:
(a)Current Liabilities < Current Assets,(b)Fixed Assets > Current Assets,(c)Current Assets < Current Liabilities, (d) Share Capital > Current Assets.
19. A firm has Capital of Rs. 10,00,000; Sales of Rs. 5,00,000; Gross Profit of Rs. 2,00,000 and Expenses of Rs. 1,00,000. What is the Net Profit Ratio?
(a)20%, (b) 50%,(c)10%, (d)40%.
20. XYZ Ltd. has earned 8% Return on Total Assests of Rs. 50,00,000 and has a Net Profit Ratio of 5%. Find out the Sales of the firm. (a) Rs. 4,00,000, (b)Rs. 2,50,000,(c)Rs. 80,00,000,(d)Rs. 83,33,333.
21. Suppliers and Creditors of a firm are interested in(a)Profitability Position,(b)Liquidity Position,(c)Market Share Position, (d) Debt Position.
22. Which of the following is a measure of Debt Service capacity of a firm?

(a)Current Ratio, (b)Acid Test Ratio,(c) Interest Coverage Ratio,(d) Debtors Turnover.
23. Gross Profit Ratio for a firm remains same but the Net Profit Ratio is decreasing. The reason for such behavior could be:
(a) Increase in Costs of Goods Sold, (b)If Increase in Expense,(c) Increase in Dividend,(d)Decrease in Sales.
24. 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.
25. Debt to Total Assets of a firm is .2. The Debt to Equity boo would be:
(a) 0.80, (b)0.25, (c) 1.00, (d)0.75
26. Which of the following helps analysing return to equity Shareholders?
(a) Return on Assets, (b) Earnings Per Share, (c) Net Profit Ratio, (d)Return on Investment.
27. Return on Assets and Return on Investment Ratios belong to:
(a) Liquidity Ratios,(b)Profitability Ratios,(c)Solvency Ratios,(d)Turnover.
28. XYZ Ltd. has a Debt Equity Ratio of 1.5 as compared to 1.3 Industry average. It means that the firm has:
(a) Higher Liquidity, (b)Higher Financial Risk,(c)Higher Profitability,(d)Higher Capital Employed.
29. 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,
30. In Inventory Turnover calculation, what is taken in the numerator?
(a) Sales,(b)Cost of Goods Sold,(c)Opening Stock,(d) Closing Stock.
[Answers : 1. (d); 2. (a) 3. (a); 4. (d); 5. (b); 6. (b); 7. (b); 8. (b); 9. (b); 10. (d); 11. (b); 12. (c); 13. (c); 14. (d) ; 15. (d); 16. (c); 17. (b); 18. (c);19. (a); 20. (c);21. (b);22. (c);23. (b);24. (d);25. (b);26. (b); 27. (b); 28. (b); 29. (a); 30. (b)].

3. State whether each of the following statements is True (T) or False(F)
(i)Financial Planning deals with the preparation of financial statements.
(ii)Cash planning is a part of long-term financial planning.
(iii) Financial forecasting is followed by financial planning.
(iv) Budgeting helps in establishing the responsibilities at different levels.
(v)A budget is a collation of forecasts and plans expressed in financial terms.
(vi)Cash budget is also known as Master Budget.
(vii)Sales and Production Budgets are Capital Budgets.
(viii) Rolling Budget System, budget for every month is prepared.
(ix) Cash budget is an important element of profit planning.
(x) Financial planning is incomplete without cash budget.
(xi) Projected Financial Statements are prepared on the basis of opening financial statements.
(xii) Projected Financial Statements can be prepared only if several other budgets are available.
(xiii) There is no assumption required for the preparation of projected financial statements.
(xiv) Percentage of Sales method can be used to prepare both the PIS and PBS.
[Answers: (i) F, (ii) F, (iii) T, (iv) T, (v) T, (vi) F, (vii) F, (viii) F, (ix) F, (x) T, (xi) F, (xii) T, (xiii) F, (xiv) T]

4.Multiple choice questions
1. Financial Planning deals with: (a) Preparation of Financial Statements, (b)Planning for a Capital Issue, (c) Preparing Budgets, (d)All of the above.
2. Financial planning starts with the preparation of:(a) Master Budget,(b) Cash Budget,(c) Balance Sheet, (d)None of the above.
3. Which of the following is not a part of Master Budget?
(a)Projected Balance Sheet,(b) Capital Expenditure Budget,(c)Operating Budgets, (d) Budget Manual.
4. Which of the following is not shown in Cash Budget?
(a)Proposed Issue of Capital, (b) Loan Repayment,(c) Interest on loan,(d) Depreciation.
5. During year 1, the sales and Cost of goods sold were Rs. 6,00,000 and Rs. 4,30,000 respectively. Next year, the sales are expected to increase by 10%. The Cost of goods sold for next year would be:
(a) Rs. 4,30,000,(b) Rs. 4,90,000,(c) Rs. 4,73,000,(d) Rs. 4,40,000.
6. In 'Percentage of Sales' method of preparation of Projected Financial Statements, the Operating Expenses should be projected on the basis of:
(a) % of Profit before tax, (b) % of Cost of goods Sold, (c) % of Gross Profit, (d) % of Sales.
7. In'% of Sales' method, various items of balance sheet are estimated on the basis of.
(a) % of Share Capital, (b) % of Sales in current year, (c) % of Fixed Assets,(d) % of Sales in preceding year.
8. In Projected Balance Sheet, a balancing figure:
(a) May appear on Assets Side,(b) May appear on Liabilities Side,(c) Would never appear,(d) Any of (a) or (&).
9. Procedure for preparation of 'Projected Financial Statements' should start from:
(a) Projection of Fixed Assets,(b) Projection of Capital,(c) Projection of Sales,(d) Projection of Profit.
10. Which of the following is not considered which preparing cash budget?
(a) Accrual Principle,(b) Difference in Capital, and Revenue items, (c) Conservation Principle, (d) All of the above.
11. Which of the following may not be apart of projected Financial Statements?
(a) Projected Income Statement,(b) Projected Trial Balance,(c) Projected Cash Flow Statement,(d) Projected Balance Sheet.
12. Process of Financial Planning ends with:

(a) Preparation of Projected Statements,(b) Preparation of Actual Statements,(c) Comparison of Actual with Projected,(d) Ordering the employees that projected figures m come true.
13. Which of the following is not true for cash Budge?
(a) That shortage or excess of cash would appear in a particular period.(b) All inflows would arise before outflows for those periods. (c) Only revenue nature cash flows are shown.(d) Proposed issue of share capital in shown as an inflow.
[Answers: 1. (c); 2. (d); 3. (d); 4. (d); 5. (c); 6. (d); 7. (d), 8 (d), 9. (c); 10. (d); 11. (b); 12. (c); 13. (c)]

5. State whether each of the following statements is True (T) or False (F):
(i)Investment decisions and capital budgeting are same.
(ii)Capital budgeting decisions are long term decisions.
(iii)Capital budgeting decisions are reversible in nature.
(iv) Capital budgeting decisions do not affect the future Stability of the firm.
(v)There is a time element involved in capital budgeting.
(vi)An expansion decision is not a capital budgeting decision
(vii)In mutually exclusive decision situation, the firm can accept all feasible proposals.
(viii) Capital budgeting and capital rationing are alternative to each other.
(ix) Correct capital budgeting decisions can be taken by comparing the cost with future benefits.
(x) Future expected profits from an investments are taken as returns from the investment for capital budgeting.
(xi) Cash flows are the appropriate measure of costs and benefits from an investment proposal.
(xii) Sunk cost is a relevant cost in capital budgeting.
(xiii) The opportunity cost of an input is always considered, in capital budgeting.
(xiv) Allocated overhead costs are not relevant for capital budgeting.
(xv) Cash flows and accounting profits are different.
(xvi) Cash flows are same as profit before tax.
(xvii) Net cash flow is on after tax basis.
[Answers : (i) F, (ii) T, (iii) F, (iv) F, (v) T, (vi) F, (vii) F, (viii) F, (ix) F, (x) F, (xi) T, (xii) F, (xiii) F, (xiv) T, (xv) T, (xvi)F, (xvii) T

6. 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.
10. Which of the following does not effect cash flows 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 capital budgeting?
(a) Capital budgeting is related to asset replacement decisions,(b) Cost of capital is equal to minimum required 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 A 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.
21. Savings in respect of a cost is treated in capital budgeting as:
(a) An Inflow,(b) An Outflow,(c) Nil, (d) None of the above.
[Answers : l(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), 21(a)]

7. State whether each of the following statement is True (T) or False (F):
(i) Irrespective of the issue involved in a capital budgeting anon, the basic techniques can be used in all cases.
(ii) Capital Rationing as a situation when the Government has imposed a ceiling on investment by a firm.
(iii) A firm should always implement a positive NPV props irrespective of fund requirement.
(iv) Money cash flows should be discounted at nominal discount rate.
(v) Real cash flows should be discounted at normal discount rate.
(vi) EAM is, in a way, an extension of NPV method.
(vii) EAM should be used in accept-reject decision situation.
(viii) Feasibility Set Approach is based on the NPV method of capital budgeting.
(ix) Selection based on PI method gives optimum decision making in case of indivisible projects.
(x) A firm should ignore the replacement timing of an asset.
(xi) There is no need to defer a positive NPV proposal.
(xii) Multi-period and Multi-constraints are one and the same thing.
(xiii) Inflation affects not only the cash flows but also the discount rate.
Answers: (i) F, (ii) F, (iii) F, (iv) T, (v) T, (vi) T, (vii) F (viii) T, (ix) F, (x) F, (xi) F, (xii) F, (xiii) T

8. Multiple Choice Questions:
1. In capital budgeting, the term Capital Rationing implies:
(a) That no retained earnings available,(b) That limited funds are available for investment,(c) That no external funds can be raised,(d) That no fresh investment is required in current year
2. Feasibility Set Approach to Capital Rationing can be applied in:
(a) Accept-Reject Situations,(b) Divisible Projects,(c) Mutually Exclusive Projects,(d) None of the above
3. In case of divisible projects, which of the following can be used to attain maximum NPV?
(a) Feasibility Set Approach,(b) Internal Rate of Return,(c) Profitability Index Approach,(d) Any of the above
4. In case of the indivisible projects, which of the following may not give the optimum result?
(a) Internal Rate of Return,(b) Profitability Index,(c) Feasibility Set Approach,(d) All of the above
5. Profitability Index, when applied to Divisible Projects, impliedly assumes that:
(a) Project cannot be taken in parts,(b) NPV is linearly proportionate to part of the project taken up,(c) NPV is additive in nature,(d) Both (b) and (c)
6. If there is no inflation during a period, then the Money Cashflow would be equal to:
(a) Present Value,(b) Real Cashflow,(c) Real Cashflow + Present Value , (d) Real Cashflow - Present Value
7. The Real Cashflows must be discounted to get the present value at a rate equal to:
(a) Money Discount Rate,(b) Inflation Rate,(c) Real Discount Rate,(d) Risk free rate of interest
8. Real rate of return is equal to:
(a) Nominal Rate × Inflation Rate, (b) Nominal Rate ÷ Inflation Rate,(c) Nominal Rate - Inflation Rate,(d) Nominal Rate + Inflation Rate
9. If the Real rate of return is 10% and Inflation s Money Discount Rate is:
(a) 14.4%, (b) 2.5%,(c) 25%,(d) 14%
10. If the Money Discount Rate is 19% and Inflation Rate is 12%, then the Real Discount Rate is:
(a) 7%,(b) 5%, (c) 5.70%,(d) 6.25%
11. Money Discount Rate if equal to:
(a) (1 + Inflation Rate) (1 + Real Rate)-1, (b) (1 + Inflation Rate) 4- (1 + Real Rate)-1,
(c) (1 + Real Rate) 4- (1 + Inflation Rate)-1, (d) (1 + Real Rate) + (1 + Inflation Rate)-1
12. Real Discount Rate is equal to:
(a) (1 + Inf. Rate) (1 + Money D Rate)-1, (b) (1 + Money D Rate) + (1 + Inf. Rate)-1,
(c) (1 + Money D Rate) 4- (1 + Inf. Rate)-1, (d) (1 + Money D Rate) - (1 + Inf. Rate)-1
13. Which of the following cannot be true?
(a) Inflation Rate > Money Dis. Rate,(b) Real Dis. Rate < Money Dis. Rate
(c) Inflation Rate < Real Dis. Rate, (d) Inflation Rate = Real Dis. Rate
14. Money Cash flows should be adjusted for:
(a) Only Inflation Effect, (b) Only Time Value of Money,(c) None of (a) and (b),(d) Both of (a) and (b)
15. EAV should be used in case of: (a) Divisible Projects,(b) Repetitive Projects, (c) One-off Investments ; (d) Indivisible Projects
16. EAV is Equal to: (a) NPV × $PVAF_{(r,n)}$, (b) NPV + $PVAF_{(r,n)}$, (c) NPV ÷ $PVAF_{(r,n)}$(d), NPV-$PVAF_{(r,n)}$
17. If a project has positive NPV, its EAV is
(a) Equal to NPV, (b)More than NPV,(c) Less than NPV,(d) Any of the above
18. Two mutually exclusive projects with different economic lives can be compared on the basis of
(a) Internal Rate of Return,(b) Profitability Index,(c) Net Present Value,(d) Equivalent Annuity Value

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

19. Write her each of the following statement is True (T) or False (F)
(i) A risky situation is one in which the probability for the occurrence or non-occurrence of an event cannot be assigned.
(ii) In capital budgeting proposals, risk may arise due to different factors.
(iii) In risky capital budgeting proposals, the discount rate is not known with certainty.
(iv) Risk Adjusted Discount Rate and Certainty Equivalents are on based statistical measures.
(v) In Payback Period method, the risk of the proposal is incorporated by lessening the target payback period.
(vi) In Certainty Equivalents method, both the cashflows and the discount rate are adjusted.
(vii) In Sensitivity Analysis, the NPV of the proposal is adjusted.
(viii) In Sensitivity Analysis, one variable is adjusted at a time to see its effect on the NPV.
(ix) Sensitivity Analysis helps in calculation of NPV of the proposal.
(x) Expected value of cash flows is equal to the arithmetic average of the cash flows.
(xi) In case of capital budgeting, higher the standard deviation better the project is.
(xii) In case of dependent cash flows, the risk is measured with reference to joint probabilities.
(xiii) Coefficient of variation is as good a measure of risk as the standard deviation.
(xiv) Decision Tree Approach is suitable to analyse a multistage decision situation.
(xv) Abandonment evaluation of a project is ma the implementation of a capital budgeting proposal.
[Answers: (i) F, (ii) T, (iii) F, (iv) F, (v) T, (vi) F, (vii F,(viii) F, (ix) F, (x) F, (xi) F, (xii) T, (xiii) F, (xiv) T, (xv) F]

20. Multiple Choice Questions
1. Risk in Capital budgeting implies that the decision-maker knows_____of the cash flows.
(a) Variability,(b)Probability,(c) Certainty,(d) None of the above
2. In Certainty-equivalent approach, adjusted cash flows are discounted at:
(a) Accounting Rate of Return,(b) Internal Rate of Return,(c) Hurdle Rate,(d) Risk-free Rate
3. Risk in Capital budgeting is same as:
(a) Uncertainty of Cash flows,(b) Probability of Cash flows,(c) Certainty of Cash flows,(d) Variability of Cash flows
4. Which of the following is a risk factor in capital budgeting?
(a) Industry specific risk factors,(b) Competition risk factors,(c) Project specific risk factors,(d) All of the above
5. In Risk-Adjusted Discount Rate method, the normal rate of discount is:
(a) Increased, (b) Decreased,(c) Unchanged,(d) None of the above
6. In Risk-Adjusted Discount Rate method, which one is adjusted?
(a) Cash flows,(b) Life of the proposal,(c) Rate of discount,(d) Salvage value
7. NPV of a proposal, as calculated by RADR real CE Approach will be:
(a) Same,(b) Unequal,(c) Both (a) and (b),(d) None of (a) and (b)
8. Risk of a Capital budgeting can be incorporated
(a) Adjusting the Cash flows,(b) Adjusting the Discount Rate,(c) Adjusting the life, (d) All of the above
9. Which element of the basic NPV equation is adjusted by the RADR?
(a) Denominator,(b) Numerator,(c) Both,(d) None
10. In CE Approach, the CE Factors for different years are:
(a) Generally increasing,(b) Generally decreasing,(c) Generally same,(d) None of the above
11. Which of the following is correct for RADR? (a) Accept a project if NPV at RADR is negative, (b) Accept a project if IRR is more than RADR (c) RADR is overall cost of capital plus risk-premium , (d) All of the above.
12. In Playback Period approach to risk the target payback period is (a)Not adjusted, (b)Adjusted upward, (c) Adjusted downward , (d) (b) or c
13. In Sensitivity Analysis, the emphasis is on assessment of sensitivity of
(a) Net Economic Life, (b) Net Present Value, (c) Both (a) and (b), (d)None of (a) and (b)
14. Most Sensitive variable as given by the Sensitivity Analysis should be:
(a) Ignored, (b) Given Least important, (c) Given the maximum importance,(d) None of the above
15. Expected Value of Cashflow, EVCF, is: (a) Certain to occur,(b) Most likely Cashflows,(c) Arithmetic Average Cashflow,(d) Geometric Average Cashflow
16. Concept of joint probability is used in case of:
(a) Independent Cashflows,(b) Uncertain Cashflows,(c) Dependent Cashflows,(d) Certain Cashflows
17. Decision-tree approach is used in:
(a) Proposals with longer life,(b) Sequential decisions,(c) Independent Cashflows,(d) Accept-Reject Proposal
[Answers : 1. (b) 2. (d) 3. (d) 4. (d) 5. (a) 6. (c) 7. (b) 8. (d) 9. (a) 10. (b). 11. (c) 12. (c) 13. (b) 14. (c) 15. (b) 16. (c) 17. (b)]
21. State whether each of the following statements is True (T) or False (F):
(i) The cost of capital is the required rate of return to certain the value of the firm.
(ii) Different sources of funds have a specific cost of capital related to that source only.
(iii) Cost of capital does not comprise any risk premium.
(iv) Cost of capital is basic data for NPV technique.
(v) Risk free interest rate and cost of capital are same things.
(vi) Different sources have same cost of capital.
(vii) Tax liability of the firm is relevant for cost of capital of all the sources of funds.
(viii) Cost of debt and Cost of Pref. share capital, both, require tax adjustment.

(ix) Every source of fund has an explicit cost of capital.
(x) WACC is the overall cost of capital of the firm.
(xi) Cost of debt is the same as the rate of interest.
(xii) Cost of Pref. share capital is determined by the rate of fixed dividend.
(xiii) Cost of Equity share capital depends upon the market price of the share.
(xiv)Cost of existing share capital and fresh issue of capital are same.
(xv) Retained earnings have implicit cost only.
(xvi) WACC is always calculated with reference to book value of different sources of funds.
(xvii) Book Value & Market Value weights are always different.
(xviii) Retained earnings have no market value, so these are not included in WACC (based on market value)
[Answer : (i) T, (ii) T, (iii) F, (iv) T, (v) F, (vi) F, (vii) F, (viii) F, (ix) F, (x) T, (xi)F(xii) T, (xiii) T, (xiv) F, (xv) T, (xvi) F,(xvii) F, (xviii) F]

22. Multiple Choice Questions

1. Cost of Capital refers to: (a) Flotation Cost,(b) Dividend,(c) Required Rate of Return,(d) None of the above.
2. Which of the following sources of funds has an Implicit Cost of Capital?
(a) Equity Share Capital,(b) Preference Share Capital,(c) Debentures,(d) Retained earnings.
3. Which of the following has the highest cost of capital? (a) Equity shares,(b) Loans,(c) Bonds,(d) Preference shares.
4. Cost of Capital for Government securities is also known as: (a) Risk-free Rate of Interest,(b) Maximum Rate of Return,(c) Rate of Interest on Fixed Deposits,(d) None of the above.
5. Cost of Capital for Bonds and Debentures is calculated on: (a) Before Tax basis,(b) After Tax basis,(c) Risk-free Rate of Interest basis,(d) None of the above.
6. Weighted Average Cost of Capital is generally denoted by: (a) k_A, (b) k_w, (c) k_0, (d) k_c,
7. Which of the following cost of capital require tax adjustment?
(a) Cost of Equity Shares, (b) Cost of Preference Shares,(c) Cost of Debentures,(d) Cost of Retained Earnings.
8. Which is the most expensive source of funds?
(a) New Equity Shares,(b) New Preference Shares,(c) New Debts,(d) Retained Earnings.
9. Marginal cost of capital is the cost of:
(a) Additional Sales,(b) Additional Funds,(c) Additional Interests,(d) None of the above.
10. In case the firm is all-equity financed, WACC would be equal to:(a) Cost of Debt,(b) Cost of Equity,(c) Neither (a) nor (b), (d) Both (a) and (b).
11. In case of partially debt-financed firm, k_0 is less (a) K_d ,(b) K_e, (c) Both (a) and (b),(d) None of the above.
12. In order to calculate Weighted Average Cost of weights may be based on:
(a) Market Values, (b) Target Values,(c) Book Values, (d) All of the above.
13. Firm's Cost of Capital is the average cost of: (a) All sources, (b) All borrowings, (c) Share capital, (d) Share Bonds & Debentures.
14. An implicit cost of increasing proportion of debt is:
(a) Tax should would not be available on new debt, (b) P.E. Ratio would increase, (c) Equity shareholders would demand higher return, (d) Rate of Return of the company would decrease.
15. Cost of Redeemable Preference Share Capital is:
(a) Rate of Dividend,(b) After Tax Rate of Dividend, (c) Discount Rate that equates PV of inflows and out-flows relating to capital, (d) None of the above.
16. Which of the following is true? (a) Retained earnings are cost free, (b) External Equity is cheaper than Internal Equity, (c) Retained Earnings are cheaper than External Equity, (d) Retained Earnings are costlier than External Equity.
17. 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.
18. Minimum Rate of Return that a firm must earn in order to satisfy its investors, is also known as:
(a) Average Return on Investment, (b)Weighted Average Cost of Capital, (c) Net Profit Ratio, (d) Average Cost of borrowing.
19. Cost Capital for Equity Share Capital does not imply that:
(a)Market Price is equal to Book Value of share,(b)Shareholders are ready to subscribe to right issue,(c).Market Price is more than Issue Price,(d) AC of the three above.
20. In order to calculate the proportion of equity financing used by the company, the following should be used:
(a) Authorised Share Capital,(b)Equity Share Capital plus Reserves and Surplus,(c)Equity Share Capital plus Preference Share Capital, (d) Equity Share Capital plus Long-term Debt.
21. The term capital structure denotes: (a) Total of Liability side of Balance Sheet, (b)Equity Funds, Preference Capital and Long term Debt,(c) Total Shareholders Equity,(d) Types of Capital Issued by a Company.
22. 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) Dividends not Payable to lenders.
23. In order to find out cost of equity capital under CAPM, which of the following is not required:
(a) Beta Factor, (b) Market Rate of Return, (c) Market Price of Equity Share,(d) Risk-free Rate of Interest.
24. Tax-rate is relevant and important for calculation of specific cost of capital of:
(a) Equity Share Capital,(b) Preference Share Capital,(c) Debentures,(d) (a) and (b) above.
25. Advantage of Debt financing is:(a) Interest is tax-deductible,(b) It reduces WACC,(c) Does not dilute owners control,(d) All of the above.
26. Cost of issuing new shares to the public is known as:
(a) Cost of Equity,(b) Cost of Capital,(c) Flotation Cost,(d) Marginal Cost of Capital.

27. Cost of Equity Share Capital is more than cost of debt because:
(a) Face value of debentures is more than face value of shares,(b) Equity shares have higher risk than debt,
(c) Equity shares are easily saleable,(d) All of the three above.
28. Which of the following is not a generally accepted approach for Calculation of Cost of Equity?
(a) CAPM,(b) Dividend Discount Model,(c) Rate of Pref. Dividend Plus Risk,(d) Price-Earnings Ratio.
[Answers : 1(c), 2(d), 3(a), 4(a), 5(b), 6(c), 7(c), 8(a), 9(b), 10(b), 11 (b), 12(d), 13(a), 14(c), 15(c), 16(c), 17(d), 18(b), 19(d), 20(b), 21 (b), 22(c), 23(c), 24(c), 25(d), 26(c), 27(b), 28(c)].

23. State whether each of the following statements is True (T) or False (F)
(i) Operating leverage analyses the relationship between sales level and EPS.
(ii) Financial leverage depends upon the operating leverage.
(iii) Dividend on Pref. shares is a factor of operating leverage.
(iv) Operating leverage may be defined as Contribution ÷ EPS.
(v) Financial leverage depends upon the fixed financial charges.
(vi) Favourable financial leverage and trading on equity are same.
(vii) Combined leverage establishes the relationship between operating leverage and financial leverage.
(viii) Financial leverage is always beneficial to the firm.
(ix) Total risk of a firm is determined by the combined effect of operating and financial leverages.
(x) Combined leverage helps in analysing the effect of change in sales level on the EPS of the firm.
[Answers :(i) F, (ii) F, (iii) F, (iv) F, (v) T, (vi) T, (vii) F,(viii) F, (ix) T, (x) T]

24. Multiple Choice Questions
1. Operating leverage helps in analysis of:
(a) Business Risk,(b) Financing Risk,(c) Production Risk,(d) Credit Risk
2. Which of the following is studied with the help of financial leverage?
(a) Marketing Risk,(b) Interest Rate Risk,(c) Foreign Exchange Risk,(d) Financing risk
3. Combined Leverage is obtained from OL and FL by their:
(a) Addition,(b) Subtraction,(c) Multiplication,(d) Any of these
4. High degree of financial leverage means:
(a) High debt proportion,(b) Lower debt proportion,(c) Equal debt and equity,(d) No debt
5. Operating leverage arises because of:
(a) Fixed Cost of Production,(b) Fixed Interest Cost,(c) Variable Cost,(d) None of the above
6. Financial Leverage arises because of:
(a) Fixed cost of production,(b) Variable Cost,(c) Interest Cost,(d) None of the above
7. Operating Leverage is calculated as:
(a) Contribution ÷ EBIT,(b) EBIT÷PBT,(c) EBIT ÷Interest,(d) EBIT ÷Tax
8. Financial Leverage is calculated as:
(a) EBIT÷ Contribution, (b) EBIT÷ PBT,(c) EBIT÷ Sales, (d) EBIT ÷ Variable Cost
9. Which combination is generally good for firms
(a) High OL, High FL (b) Low OL, Low FL, (c) High OL, Low FL,(d) None of these
10. Combined leverage can be used to measure the relationship between:
(a) EBIT and EPS,(b) PAT and EPS,(c) Sales and EPS,(d) Sales and EBIT
11. FL is zero if:
(a) EBIT = Interest,(b) EBIT = Zero,(c) EBIT = Fixed Cost,(d) EBIT = Pref. Dividend
12. Business risk can be measured by:
(a) Financial leverage,(b) Operating leverage,(c) Combined leverage,(d) None of the above
13. Financial Leverage measures relationship between
(a) EBIT and PBT,(b) EBIT and EPS,(c) Sales and PBT,(d) Sales and EPS
14. Use of Preference Share Capital in Capital structure
(a) Increases OL,(b) Increases FL,(c) Decreases OL,(d) Decreases FL
15. Relationship between change in sales and change m is measured by:
(a) Financial leverage,(b) Combined leverage(c) Operating leverage,(d) None of the above
16. Operating leverage works when:
(a) Sales Increases, (b) Sales Decreases, (c) Both (a) and (b), (d) None of (a) and (b)
17. Which of the following is correct? (a) CL= OL + FL,(b) CL=OL-FL,(c) OL= OL × FL,(d) OL=OL÷FL
18. If the fixed cost of production is zero, which one of the following is correct?
(a) OL is zero, (b) FL is zero, (c) CL is zero, (d) None of the above
19. If a firm has no debt, which one is correct?(a) OL is one, (b) FL is one, (c) OL is zero, (d)FL is zero
20. If a company issues new share capital to redeem debentures, then:
(a) OL will increase,(b) FL will increase,(c) OL will decrease,(d) FL will decrease
21. If a firm has a DOL of 2.8, it means:
(a) If sales increase by 2.8%, the EBIT will increase by 1%,(b) If EBIT increase by 2.896, the EPS will increase by 1 %, (c) If sales rise by 1%, EBIT will rise by 2.8%, (d) None of the above
22. Higher OL is related to the use of higher:
(a) Debt,(b) Equity,(c) Fixed Cost,(d) Variable Cost
23. Higher FL is related the use of:
(a) Higher Equity,(b) Higher Debt,(c) Lower Debt,(d) None of the above
[Answers: 1. (a), 2. (d), 3. (c), 4. (a), 5. (a), 6. (c), 7. (a), 8. (b), 9. (c), 10. (c), 11. (b), 12. (b), 13. (b), 14. (b), 15. (b), 16. (c), 17. (c), 18. (d), 19. (b), 20. (d), 21. (c), 22. (c), 23. (b)]

25. State whether each of the following statements is True (T) or False (F).
i. EBIT is also known as operating profits.
ii. If EBIT for two firms are same, then the EPS of these firms would also always be same.
iii. EPS depends upon the composition of capital structure,
iv. Financial breakeven level occurs when EBIT is zero.
v. At financial breakeven level of EBIT, EPS would be zero.
vi. Indifference level of EBIT is one at which EPS is zero.
vii. Indifference level of EBIT is one at which EPS under two or more financial plans would be same.
viii. All equity plan and Debt-equity plan have no indifference level of EBIT.
ix. Preference dividend is not a factor of indifference level of EBIT.
x. EBIT-EPS Analysis is an extension of financial leverage analysis.
xi. Trading on equity is resorted to with a view to decrease EPS.
[Answers : (i) T, (ii) F, (iii) T, (iv) F, (v) T, (vi) F, (vii) T, (viii) F (ix) F, (x) T, (xi) F]

26. Multiple Choice Questions
1.In order to calculate EPS, Profit after Tax and Preference Dividend is divided by:
(a) MP of Equity Shares,(b) Number of Equity Shares,(c) Face Value of Equity Shares, (d) None of the above.
2.Trading on Equity is :(a) Always beneficial,(b) May be beneficial,(c) Never beneficial,(d) None of the above.
3. Benefit of 'Trading on Equity' is available only if:
(a) Rate of Interest < Rate of Return,(b) Rate of Interest > Rate of Return,(c) Both (a) and (b),(d) None of (d) and (b).
4. Indifference Level of EBIT is one at which:
(a) EPS is zero,(b) EPS is Minimum,(c) EPS is highest, (d) None of these.
5. Financial Break-even level of EBIT is one at which:
(a) EPS is one,(b) EPS is zero,(c) EPS is Infinite,(d) EPS is Negative.
6. Relationship between change in Sales and d Operating Profit is known as:
(a) Financial Leverage,(b) Operating Leverage,(c) Net Profit Ratio,(d) Gross Profit Ratio.
7. If a firm has no Preference share capital, Financial Break even level is defined as equal to -
(a) EBIT,(b) Interest liability,(c) Equity Dividend,(d) Tax Liability.
8. At Indifference level of EBIT, different capital have:(a) Same EBIT,(b) Same EPS,(c) Same PAT, (d) Same PBT.
9. Which of the following is not a relevant factor m EPS Analysis of capital structure?
(a) Rate of Interest on Debt,(b) Tax Rate,(c) Amount of Preference Share Capital,(d) Dividend paid last year.
10. For a constant EBIT, if the debt level is further increased then
(a) EPS will always increase,(b) EPS may increase, (c)EPS will never increase, (d) None of the above.
11. Between two capital plans, if expected EBIT is more than indifference level of EBIT, then
(a) Both plans be rejected, (b)Both plans are good, (c) One is better than other,(d) None of the above.
12. Financial break-even level of EBIT is:(a) Intercept at Y-axis,(b) Intercept at X-axis,(c) Slope of EBIT-EPS line
(d) None of the above.
[Answers: 1. (b), 2. (b), 3. (a), 4. (d), 5. (b), 6. (b), 7. (b), 8. (b), 9. (d), 10. (b), 11. (c), 12. (b)]

27. Which of the following statements is True (T) or False
(i) The financing decision affects the total operating profits of the firm.
(ii) The equity Shareholders get the residual profit of the firm.
(iii) There is no difference of opinion on the relationship between capital structure and value of the firm.
(iv) The ultimate conclusions of NI approach and the NOI approach are same.
(v) The NI approach, the k_e is assumed to be same and constant.
(vi) The NI approach, the k_0 falls as the degree of leverage is increased.
(vii) In NOI approach, K_d and K_0 are taken as constant.
(viii) In NOI approach says that there is no optimal capital structure.
(ix) The traditional approach says that a firm may attain an optimal capital structure.
(x) At optimal capital structure, the k_0 of the firm is highest.
(xi) MM model provides a behavioural justification of NOI approach.
(xii) In MM model, personal leverage and corporate leverage are considered as perfect substitute.
(xiii) MM model is difficult to be applied in practice.
(xiv) In the basic MM model, leverage does not affect the value of the firm.
(xv) In the MM model, the value of the levered firm can be found by first finding out the value of the unlevered firm.
[Answers : (i) F, (ii) T, (Hi) F, (iv) F, (v) T, (vi) T, (vii) T, (viii) T, (ix) T, (x) F, (xi) T, (xii) T, (xiii) T, (xiv) T, (xv) T.]

28. Multiple Choice Questions
1. Which of the following is true for Net Income Approach?
(a) Higher Equity is better,(b) Higher Debt is better,(c) Debt Ratio is irrelevant,(d) None of the above.
2. In case of Net Income Approach, the Cost of equity is: (a) Constant, (b) Increasing, (c) Decreasing, (d) None of the above.
3. In case of Net Income Approach, when the debt proportion is increased, the cost of debt:
(a) Increases, (b) Decreases, (c) Constant, (d) None of the above.
4. Which of the following is true of Net Income Approach?
(a) $V_F = V_E+V_D$, (b) $V_E = V_F+V_D$, (c) $V_D = V_F+V_E$, (d) $V_F = V_E-V_E$,
5. Net Operating Income Approach, which one of the lowing is constant?

(a) Cost of Equity, (b) Cost of Debt,(c) WACC & k_d, (d)K_e and K_d
6. NOI Approach advocates that the degree of debt financing is:
(a) Relevant,(b) May be relevant,(c) Irrelevant,(d) May be irrelevant.
7. 'Judicious use of leverage' is suggested by:
(a) Net Income Approach,(b) Net Operating Income Approach,(c) Traditional Approach,(d) All of the above.
8. Which one is true for Net Operating Income Approach?
(a) $V_D = V_F - V_E$,(b) $V_E = V_F + V_D$,(c) $V_E = V_F - V_D$,(d) $V_D = V_F + V_E$.
9. In the Traditional Approach, which one of the following remains constant?
(a) Cost of Equity,(b) Cost of Debt,(c) WACC,(d) None of the above.
10. In MM-Model, irrelevance of capital structure is based on:
(a) Cost of Debt and Equity,(b) Arbitrage Process,(c) Decreasing k_0, (d) All of the above.
11.'That there is no corporate tax' is assumed by:
(a) Net Income Approach,(b) Net Operating Income Approach,(c) Traditional Approach,(d) All of these.
12. 'That personal leverage can replace corporate leverage' is assumed by:
(a) Traditional Approach,(b) MM Model,(c) Net Income Approach,(d) Net Operating Income Approach.
13. Which of the following argues that the value of levered firm is higher than that of the unlevered firm?
(a) Net Income Approach,(b) Net Operating Income Approach,(c) MM Model with taxes,(d) Both (a) and (c).
14. In Traditional Approach, which one is correct?
(a) k_e rises constantly,(b) k_d decreases constantly,(c) k_0 decreases constantly,(d) None of the above.
15. Which of the following assumes constant k_d and k_e?
(a) Net Income Approach,(b) Net Operating Income Approach,(c) Traditional Approach,(d) MM Model.
16. Which of the following is true?
(a) Under Traditional Approach, overall cost of capital remains same,(b) Under NI Approach, overall cost of capital remains same,(c) Under NOI Approach, overall cost of capital remains same,(d) None of the above.
17. The Traditional Approach to Value of the firm m that:
(a) There is no optimal capital structure,(b) Value can be increased by judicious use of leverage
(c) Cost of Capital and Capital structure are m dent,(d) Risk of the firm is independent of capital structure
18. 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:
(a) Rs. 2,50,000,(b) Rs. 1,70,000,(c) Rs. 30,000,(d) Rs. 1,30,000.
19. Which of the following is incorrect for NOI?
(a) k_0 is constant,(b) k_d is constant, (c) ke is constant,(d) k_d & k_0 are constant.
20. Which of the following is incorrect for value of the firm?
(a) In the initial preposition, MM Model argues that value is independent of the financing mix.
(b) Total value of levered and unlevered firms is otherwise arbitrage will take place.
(c) Total value incorporates borrowings by firm but excludes personal borrowing.
(d) Total value does not change because underlying does not change with financing mix.
21. Which of the following appearing in the balance! generates tax advantage and hence affects the c, structure decision ? (a) Reserves and Surplus,(b) Long-term debt,(c) Preference Share Capital,(d) Equity Share Capital.
22. In MM Model with taxes, where 'r' is the interest rate, 'D' is the total debt and 't' is tax rate, then present valued shields would be: (a) r×D×t, (b) r×D,(c) D×t, (d) (D× r)/(l-t).
[Answers : l(b), 2(a), 3(c), 4(a), 5(c), 6(c), 7(c), 8(c), 9(d) 10(b), 11 (d), 12(b), 13(d), 14(d), 15(a), 16(c), 17(b), 18(b) 19(c),20(d),21(b),22(c)].

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29. Which of the following statements is True (T) or False
(i) Dividend is a part of retained earnings.
(ii)Dividend is compulsorily payable to preference shareholders.
(iii) Effective dividend policy is an important tool to achieve the goal of wealth maximization.
(iv) Retained earnings are an easily available source of funds at no explicit cost.
(v)Dividend payout ratio refers to that portion of total earnings which is distributed among shareholders.
(vi) % rate of dividend is also known as dividend payout ratio.
(vii) There is a difference of opinion on relationship between dividend payment and value of the firm.
(viii) Walters model supports the view that dividend is relevant for value of the firm.
(ix) Gordon's model suggests that dividend payment does not affect the market price of the share.
(x) In the Walters model, the DP ratio should depend upon the relationship between r and k_e
(xi) Residual theory says that dividend decision is no decision.
(xii) MM model deals with irrelevance of dividend decision
(xiii) MM model is a fool proof model of dividend irrelevance.
(xiv) In the arbitrage process of MM model, the dividends paid by a company are replaced by fresh investment.
(xv) MM model asserts that value of the firm is not affected whether the firm pays dividend or not.
[Answer (i) F, (ii) F, (iii) T, (iv) T, (v) T, (vi) F, (vii) T, (viii) T, (ix) F, (x) T, (xi) T, (xii) T, (xiii) F, (xiv)T, (xv) T.]

30. Multiple Choice Questions
(i) Walter's Model suggests for 100% DP Ratio when (a) $k_e = r$, (b) $k_e < r$, (c) $k_e > r$, (d) $k_e = 0$
(ii) If a firm has $k_e > r$ the Walter's Model suggests for (a) 0% payout, (b) 100% Payout, (c) 50% Payout, (d)25% Payout
(iii) Walter's Model suggests that a firm can always increase i.e. of the share by
(a) Increasing Dividend , (b) Decreasing Dividend, (c) Constant Dividend, (d) None of the above

4. 'Bird in hand' argument is given by
(a) Walker's Model, (b) Gordon's Model, (c)MM Mode, (d) Residuals Theory
5. Residuals Theory argues that dividend is a (a) Relevant Decision , (b) Active Decision, (c) Passive Decision, (d) Irrelevant Decision
6. Dividend irrelevance argument of MM Model is based on:
(a) Issue of Debentures, (b) Issue of Bonus Share, (c) Arbitrage , (d) Hedging
7. Which of the following is not true for MM Model?
(a) Share price goes up if dividend is paid , (b) Share price goes down if dividend is not paid, (c) Market value is unaffected by Dividend policy, (d) All of the above.
8. Which of the following stresses on investor's preference reorient dividend than higher future capital gains ?
(a)Walter's Model, (b) Residuals Theory, (c) Gordon's Model, (d) MM Model.
9. MM Model of Dividend irrelevance uses arbitrage between
(a)Dividend and Bonus, (b)Dividend and Capital Issue, (c)Profit and Investment,(d)None of the above
10. If k_e = r, then under Walter's Model, which of the following is irrelevant?
(a)Earnings per share,(b)Dividend per share,(c)DP Ratio,(d)None of the above
11. MM Model argues that dividend is irrelevant as
(a)the value of the firm depends upon earning power,(b)the investors buy shares for capital gain, (c)dividend is payable after deciding the retained earnings, (d)dividend is a small amount
12. Which of the following represents passive dividend policy ?
(a)that dividend is paid as a % of EPS, (b)that dividend is paid as a constant amount, (c)that dividend is paid after retaining profits for reinvestment, (d)all of the above
13. In case of Gordon's Model, the MP for zero payout is zero. It means that
(a)Shares are not traded, (b)Shares available free of cost, (c)Investors are not ready to offer any price,(d) None of the above
14. Gordon's Model of dividend relevance is same as
(a) No-growth Model of equity valuation, (b)Constant growth Model of equity valuation,(c)Price-Earning Ratio (d) Inverse of Price Earnings Ratio
15. If 'r' = 'ke', than MP by Walter's Model and Gordon's Model for different payout ratios would be
(a) Unequal, (b)Zero,(c)Equal,(d)Negative
[Answers l(c), 2(a), 3(d), 4(b), 5(c), 6(c), 7(c), 8(c), 9(b), 10(c), 11 (a), 12(c), 13(c), 14(b), 15(c)].

31. State whether each of the following statements is True (T) or False (F).
(i) DP ratio of a firm should be directly related to future growth plans of the firm.
(ii) Dividends are paid out of profit and therefore do not affect the liquidity position of the firm.
(iii) Stability of dividend refers to the fact that the rate of divided must be fixed.
(iv) While designing a dividend policy, the legal provisions may be considered by the firm.
(v) Cash dividend and bonus share issue affect the firm in the same way.
(vi) Capital profits can never be distributed as-4 the shareholders.
(vii) In India, there is a restriction on the rate 4 being paid by a company.
(viii) No company in India, can pay final dividend already paid an interim dividend.
(ix) Dividends, in India, can be paid only out of profits.
[Answers : (i) T, (ii) F, (iii) F, (iv) F, (v) F, (vi) F, vii (F), T (viii) F, (ix) F.]

32. Multiple Choice Questions
1. Dividend Payout Ratio is
(a) PAT÷ Capital, (b) DPS ÷ EPS, (c)Pref. Dividend ÷ PAT,(d)Pref. Dividend ÷ Equity Dividend
2. Dividend declared by a company must be paid in
(a)20 days,(b)30 days,(c)32 days,(d)42 days
3. Dividend Distribution Tax is payable by
(a)Shareholders to Government,(b)Shareholders to Company,(c)Company to Government, (d)Holding to Subsidiary Company
4. Shares of face value of Rs. 10 are 80% paid up. The company declares a dividend of 50%. Amount of dividend per share is (a)Rs. 5,(b)Rs.4,(c)Rs. 80,(d) Rs. 50
5. Which of the following generally not result in increase in total dividend liability ?
(a)Share-split,(b)Right Issue,(c)Bonus Issue,(d)All of the above
6. Dividends are paid out of (a)Accumulated Profits,(b)Gross Profit,(c)Profit after Tax,(d)General Reserve
7. In India, Dividend Distribution tax is paid on (a)Equity Share,(b)Preference Share,(c)Debenture,(d)Both (a) and (b)
8. In India, if dividend on equity shares is not paid within 30 days it is transferred to Investors Education Fund in: (a)2 days,(b)3 days,(c)4 days,(d)7 days
8. Every company should follow
(a)High Dividend Payment,(b)Low Dividend Payment,(c)Stable Dividend Payment,(d)Fixed Dividend Payment
9. 'Constant Dividend Per Share' Policy is considered as:
(a) Increasing Dividend Policy,(b) Decreasing Dividend Policy,(c)Stable Dividend Policy,(d) None of the above
10. Which of the following is not a type of dividend payment?
(a) Bonus Issue, (ii) Right Issue, (c) Share Split, (d) Both (b) and (c)
11. If the following is an element of dividend policy?
(a) Production capacity, (b) Change in Management, (c) Informational content, (d) Debt service capacity

12. Stock split is a form of (a) Dividend Payment, (b)Bonus Issue, (c) Financial restructuring, (d) Dividend in kind
13. In stock dividend: (a)Authorized capital always increases, (b)Paid up capital always increases, (c) Face value per share decreases,(d) Market price for share decreases
14. Which of the following is not considered in Lintner's Model ?
(a) Dividend payout ratio,(b)Current EPS,(c)Speed of Adjustment,(d)Preceding year EPS
15. Which of the following is not relevant for dividend payment for a year ?
(a)Cash flow position,(b)Profit position,(c)Paid up capital,(d) Retained Earnings
[Answers l(b), 2(b), 3(c), 4(b), 5(a), 6(c), 7(d), 8(c), 9(c), 10(c), ll(c), 12(c), 13(d), 14(d), 15(d)].

33. State whether each of the following statements is True (T) or False (F)
(i) Management of cash means management of cash in flows.
(ii) Cash is the most important but least earning current asset.
(iii) Cash management always attempts at minimizing the cash balance.
(iv) Cash cycle is equal to operating cycle for a firm.
(v) Receipts and disbursement method of preparation of cash budget is the most widely used method.
(vi) Concentration banking is a method of controlling cash outflows.
(vii) Baumol's model of cash management assumes a constant rate of use of cash.
(viii) Baumol's model attempts at optimization of cash balance.
(ix) In cash management, expected surplus cash, if any, is not considered at all.
(x) Capital expenditures are not considered in cash budget.
(x i) Issue of share capital or debentures are taken as inflows in cash budget.
(xii) Conversion of debentures into share capital is equal to issue of share capital and hence it is a type of cash inflow.
[Answers (i) F, (ii) T, (iii) T, (iv) F, (v) T, (vi) F, (vii) T, (viii) T,(ix) F, (x) F, (xi) T, (xii) F].

34. Multiple Choice Questions
1. Cash Budget does not include
(a) Dividend Payable, (b)Postal Expenditure, (c) Issue of Capital, (d)Total Sales Figure.
2. Which of the following is not a motive to hold cash?
(a) Transactionary Motive, (b)Pre-scautionary Motive,(c)Captal Investment, (d)None of the above.
3. Cheques deposited in bank may not be available for immediate use due to
(a) Payment Float,(b)Recceipt Float,(c) Net Float, (d)Playing the Float.
4. Difference between between the bank balance as per Cash Book and Pass Book may be due to:
(a) Overdraft, (b) Float, (c) Factoring, (d)None of the above.
5. Concentration Banking helps in
(a) Reducing Idle Bank Balance,(b)Increasing Collection,(c)Increasing Creditors,(d)Reducing Bank Transactions.
6. The Transaction Motive for holding cash is for
(a) Safety Cushion,(b)Daily Operations,(c)Purchase of Assets,(d)Payment of Dividends.
7. Which of the following should be reduced to minimum by a firm?
(a)Receipt Float,(b)Payment Float,(c)Concentration Banking,(d)All of the above.
8. Cash required for meeting specific payments should be invested with an eye on
(a) Yield,(b)Maturity,(c)Liquidity,(d)All of the above.
9. Miller-Orr Model deals with
(a)Optimum Cash Balance,(b)Optimum Finished goods,(c)Optimum Receivables,(d)All of the above.
10.Float management is related to
(a)Cash Management,(b)Inventory Management,(c)Receivables Management,(d)Raw Materials Management.
11.Which of the following is not an objective of cash management ?
(a)Maximization of cash balance,(b)Minimization of cash balance,(c)Optimization of cash balance,(d)Zero cash balance.
12.Which of the following is not true of cash budget ?
(a)Cash budget indicates timings of short-term borrowing,(b)Cash budget is based on accrual concept,(c)Cash budget is based on cash flow concept,(d)Repayment of principal amount of law is shown in cash budget.
13. Baumol's Model of Cash Management attempts to:
(a) Minimise the holding cost, (b)Minimization of transaction cost, (c)Minimization of total cost,(d)Minimization of cash balance
14. Which of the following is not considered by Miller-Orr Model?
(a)Variability in cash requirement,(b)Cost of transaction,(c)Holding cost,(d)Total annual requirement of cash.
15.Basic characteristic of short-term marketable*
(a)High Return,(b)High Risk,(c)High Marketability,(d)High Safety
16.Marketable securities are primarily
(a) Equity shares,' (b) Preference shares,(c)Fixed deposits with companies,(d)Short-term debt investments.
[Answers 1. (d), 2.(c), 3. (b), 4. (b), 5. (b), 6. (b,. " 9. (a), 10. (a), 11. (c), 12. (b), 13. (c), 14. (d), 15. (c)., 16(d)]

35. State whether each of the following statements is True (T) or False (F).
(i) Receivables management deals only with the collection of cash from the debtors.
(ii) Receivables management involves a trade off between costs and benefits of receivable.
(iii) The objective of a credit policy is to curtail the credit period allowed to customers.

(iv) Credit period allowed to customers must be equal to credit period allowed by the supplier to the firm.
(v) Delinquency cost refers to bad debt losses to the firm.
(vi) Liberalizing the discount rate means increasing the discount rate for the same period.
(vii) Credit evaluation of a customer is a cost process hence it need not be undertaken by a selling firm
(viii) In order to minimize the level of receivables, a firm should follow a strict and aggressive should follow a strict and aggressive collection procedures.
(ix) Ageing schedule of receivables is one way or monitoring the receivables.
(x) Services of a factor are always beneficial.
[Answers: (i) F, (ii) T, (iii) F, (iv) F, (v) F, (vi) T, (vii) F, (viii) F, (ix) T, (x) F]

36. Multiple Choice Questions
1. 5Cs of the credit does not include
(a) Collateral,(b)Character, (c) Conditions,(d) None of the above.
2. Which of the following is not an element of credit policy?
(a)Credit Terms,(b)Collection Policy,(c)Cash Discount Terms,(d)Sales Price.
3. Ageing schedule incorporates the relationship between (a)Creditors and Days Outstanding, (b)Debtors and Days Outstanding, (c)Average Age of Directors, (d)Average Age of All Employees.
4. Bad debt cost is not borne by factor in case of (a) Pure Factoring, (b) Without Recourse Factoring, (c) With Recourse Factoring, (d)None of the above.
5. Which of the following is not a technique of receivables Management?
(a)Funds Flow Analysis,(b)Ageing Schedule,(c)Days sales outstanding,(d)Collection Matrix.
6. Which of the following is not a part of credit policy?
(a)Collection Effort,(b) Cash Discount,(c)Credit Standard, (d) Paying Practices of debtors.
7. Which is not a service of a factor? (a)Administrating Sales Ledger, (b)Advancing against Credit Sales, (c) Assuming bad debt losses, (d) None of the above.
8. Credit Policy of a firm should involve a trade-off between increased
(a) Sales and Increased Profit,(b) Profit and Increased Costs of Receivables,(c) Sales and Cost of goods sold,(d)None of the above.
9. Out of the following, what is not true in respect of factoring?
(a)Continuous Arrangement between Factor and Seller, (b)Sale of Receivables to the factor,(c)Factor provides cost free finance to seller,(d)None of the above.
10. Payment to creditors is a manifestation of cash held for:
(a)Transactionery Motive,(b)Precautionary Motive,(c)Speculative Motive,(d)All of the above.
11. If the closing balance of receivables is less than the opening balance for a month then which one is true out of (a)Collections>Current Purchases,(b)Collections>Current Sales,(c)Collections<Current Purchases,
(d) Collections < Current Sales.
12. If the average balance of debtors has increased, which of the following might not show a change in general?
(a)Total Sales,(b)Average Payables,(c)Current Ratio,(d)Bad Debt loss.
13. Securitization is related to conversion of (a)Receivables,(b)Stock,(c)Investments,(d)Creditors.
14. 80% of sales of Rs. 10,00,000 of a firm are on credit. It has a Receivable Turnover of 8. What is the Average collection period (360 days a year) and Average Debtors of the firm?
(a)45 days and Rs. 1,00,000,(b)360 days and Rs. 1,00,000,(c)45 days and Rs. 8,00,000,(d)360 days and Rs. 1,25,000.
15. In response to market expectations, the credit pence r j been increased from 45 days to 60 days. This would result in
(a)Decrease in Sales,(b)Decrease in Debtors,(c)Increase in Bad Debts,(d)Increase in Average Collection Period.
16. If a company sells its receivable to another party to raise funds, it is known as
(a)Securitization,(b)Factoring,(c)Pledging,(d)None of the above.
17. Cash Discount term 3/15, net 40 means
(a) 3% Discount if payment in 15 days, otherwise full payment in 40 days,(b) 15% Discount if payment in 3 days, otherwise full payment 40 days, (c) 3% Interest if payment made in 40 days and 15%,(d)interest thereafter, None of the above.
18. 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 (a) 4 times, (b) 25%, (c)400%,(d)0.25 times
19. If cash discount is offered to customers, then which of the following would increase?
(a)Sales,(b)Debtors,(c)Debt collection period,(d)All of the above
20. Receivables Management deals with
(a)Receipts of raw materials,(b)Debtors collection,(c)Creditors Management,(d)Inventory Management
21. Which of the following is related to Receivables Management?
(a) Cash Budget,(b)Economic Order Quantity,(c)Ageing schedule,(d)All of the above.
[Answers 1. (d), 2. (d), 3. (b), 4. (c), 5. (a), 6. (d), 7. (d), 8 (b), 9. (c), 10. (a) 11. (b), 12. (b), 13. (a), 14. (a), 15. (d), 16(b), 17. (a), 18. (a), 19. (a), 20. (b), 21. (c)]

37. Whether each of the following statements is True (T) or False (F)
(i) Inventory management does not include management work in progress.
(ii) Stock of finished goods should be as high as possible so that no customer is denied the sale.

(iii) There is no explicit benefit of keeping inventory, hence no stock be maintained.
(iv) Carrying cost of inventory includes the carriage in.
(v) Carrying cost and ordering cost are opposite forces in receivable management.

(vi) Cost of stock out occurs whenever the firm has no stock of a particular item.
(vii) ABC analysis helps to ascertain the minimum level of stock of raw material.
(viii) The EOQ model attempts to minimizing the total cost of holding inventory.
(ix) EOQ model assumes a constant usage rate for a particular item.
(x) Average inventory in EOQ model is 1/2 of EOQ.
[Answers (i) F, (ii) F, (iii) F, (iv) F, (v) T, (vi) F, (vii) F, (viii) T, (ix) T, (x) T]

38. Multiple Choice Questions
1. EOQ is the quantity that minimizes
(a)Total Ordering Cost,(b)Total Inventory Cost,(c)Total Interest Cost,(d)Safety Stock Level.
2. ABC Analysis is used in
(a)Inventory Management,(b)Receivables Management,(c)Accounting Policies,(d)Corporate Governance.
3. If no information is available, the General Rule for valuation of stock for balance sheet is
(a)Replacement Cost,(b)Realizable Value,(c)Historical Cost,(d)Standard Cost.
4. In ABC inventory management system, class A items may require
(a)Higher Safety Stock,(b)Frequent Deliveries,(c)Periodic Inventory system,(d)Updating of inventory records.
5. Inventory holding cost may include (a) Material Purchase Cost,(b) Penalty charge for default,(c) Interest on loan, (d)None of the above.
6. Use of safety stock by a firm would
(a)Increase Inventory Cost,(b)Decrease Inventory Cost,(c)No effect on cost,(d)None of the above.
7. Which of the following is true for a company which uses continuous review inventory system
(a)Order Interval is fixed,(b)Order Interval varies,(c) Order Quantity is fixed,(d) Both (a) and (c).
8. In the EOQ Model
(a)EOQ will increase if order cost increases,(b)EOQ will decrease if holding cost decreases,;(c)EOQ will decrease if annual usage increases,(d)None of the above.
9. EOQ determines the order size when
(a)Total Order cost is Minimum,(b)Total Number of order is least,(c)Total inventory costs are minimum,(d) None of the above.
10. ABC Analysis is useful for analyzing the inventories:
(a)Based on their Quality,(b)Based on their Usage and value,(c)Based on Physical Volume,(d) All of the above.
11. If A = Annual Requirement, O = Order Cost and C = Carrying Cost per unit per annum, then EOQ
(a) $(2AO/C)^2$,(b) $\sqrt{2AO/C}$ (c) 2A÷OC, (d)2AOC.
12. Inventory is generally valued as lower of
(a)Market Price and Replacement Cost,(b)Cost and Net Realizable Value,(c)Cost and Sales Value,(d)Sales Value and Profit.
13. Which of the following is not included in cost of inventory?
(a)Purchase cost,,(b)Transport in Cost,(c)Import Duty,(d)Selling Costs.
14. Cost of not carrying sufficient inventory is known as (a)Carrying Cost,(b)Holding Cost,(c)Total Cost,(d) Stock-out Cost
15. Which of the following is not a benefit of carrying inventories
(a) Reduction in ordering cost, (b)Avoiding lost sales, (c)Reducing carrying cost, (d)Avoiding Production Shortages.
16. Which of the following is not a standard method of inventory valuation?
(a)First in First out,(b)Standard Cost,(c)Average Pricing,(d)Realizable Value.
17. System of procuring goods when required, is known as,
(a)Free on Board (FOB),(b)always Butter Control (ABC),(c) Jest in Time (JIT),(d)Economic Order Quantity.
18. A firm has inventory turnover of 6 and cost of goods sold is Rs. 7,50,000. With better inventory management, the inventory turnover is increased to 10. This would result in:
(a)Increase in inventory by Rs. 50,000,(b)Decrease in inventory by Rs. 50,000,(c)Decrease in cost of goods sold, (d)Increase in cost of goods sold.
19. What is Economic Order Quantity?
(a)Cost of an Order,(b)Cost of Stock,(c)Reorder level,(d)Optimum order size.
[Answers 1. (a), 2. (a), 3. (c), 4. (a), 5. (d), 6. (a), 7, b f _ 9. (c), 10. (b), 11. (b), 12. (b), 13. (d), 14. (d), 15. (c), 16(c), 17. (c), 18. (b), 19. (d)]

39. State whether each of the following statements is True (T) or False (F):
(i) Same considerations are applicable to short-term sources as well as long-term sources of funds.
(ii) As bank overdraft is availed by business firms on a regular basis, it may be considered as a long-term source of funds.
(iii) For availing funds from short-term sources, credit rating of borrower is generally not required.
(iv)Credit purchase can be a good source of short-term finance.
(v)Cash discount should always be availed by the purchasing firm irrespective of the rate of discount.
(vi)A firm should always arrange the funds by delaying the payment to creditors and payables.
(vii) In India, commercial papers can be issued for any amount and for any duration.

(viii) Commercial Papers can be issued only if minimum credit rating is procured by the issuer company.
(ix) Bill Discounting is a good source of short term finance to all firms.
(x) In India, all types of short-term financing from banks must be secured.
(xi) Short-term unsecured debentures are not popular among Indian corporates.

(xii) Reserve Bank of India constituted Tandon Committee to suggest the norms for long-term credit facility from banks to borrowers.
(xiii) One of the objective of Tandon Committee m suggest inventory norms for different industries.
(xix) Tandon Committee has suggested different method for calculation of Maximum Permissible Bank Finance.
(xv) Kannan Committee suggested for full discretion banks for determining borrowing limits of borrowers.
[Answers (i) F, (ii) F, (iii) T, (iv) T, (v) F, (vi) F, (vii) F, (viii) T, (ix) F, (x) T, (xi) T, (xii) F, (xiii) T, (xiv) T, (xv) T]

40.Multiple Choice Questions
1. The type of collateral (security) used for short-term loan is
(a) Real estate,(b)Plant & Machinery,(c)Stock of good, (d)Equity share capital
2. Which of the following is a liability of a bank?
(a)Treasury Bills,(b)Commercial papers,(c)Certificate of Deposits,(d)Junk Bonds.
3. Commercial paper is a type of (a)Fixed coupon Bond,(b)Unsecured short-term debt,(c)Equity share capital,(d) Government Bond
4.Which of the following is not a spontaneous source of short-term funds ?
(a)Trade credit,(b)Accrued expenses,(c)Provision for dividend,(d)All of the above.
5. Concept of Maximum Permissible Bank finance was introduced by
(a)Kannan Committee,(b)Chore Committee,(c)Nayak Committee,(d)Tandon Committee.
6. In India, Commercial Papers are issued as per the lines issued by
(a) Securities and Exchange Board of India, (b)Reserve Bank of India,(c)Forward Market Commission,(d)None of the above.
7. Commercial paper are generally issued at a pries
(a)Equal to face value,(b)More than face value,(c)Less than face value,(d)Equal to redemption value
8. Which of the following is not applicable to commercial paper
(a)Face Value,(b)Issue Price,(c)Coupon Rate,(d)None of the above.
9. The basic objective of Tandon Committee recommendations is that the dependence of industry on bank should gradually
(a)Increase,(b)Remain Stable,(c)Decrease,(d)None of the above
10. Cash discount terms offered by trade creditors never be accepted because
(a)Benefit in very small,(b)Cost is very high,(c)No sense to pay earlier,(d)None of the above.
[Answers 1. (c), 2. (c), 3. (b), 4. (c), 5. (d), 6. (b), 7. (c), 8(d), 9. (c), 10. (d)]

41. State whether each of the following statements is True (T) or False (F)
(i) A lease is a temporary transfer of title of an asset in return for a rental income.
(ii) Lease transactions in India are governed by the Lease Act.
(iii) Technically, the lessee becomes the owner of the asset or the lease period.
(iv) Operating lease and Sale and lease-back are different types of transactions.
(v) Sale and Lease-back and Leveraged lease are types of finance lease.
(vi) Treatment of Operating lease in AS-19 is almost same as required by tax laws in India.
(vii) As per AS-19, in case of Finance lease, the asset is shown in the balance sheet of the lessee.
(viii) Lease financing is a type of capital budgeting decision from the point of view of the lessee.
(ix) Tax-shield on depreciation and interest is an important variable both for the lessor and the lessee.
(x) A lessee should evaluate the lease options as against the buying option.
(xi) Net benefit of leasing is the NPV of lease option from the point of view of lessor.
(xii) While evaluating lease as a source of long- term finance, the lessee should give more emphasis on AS-19.
(xiii) Lease outflows should be discounted at the interest rate to find out the present values.
(xiv) A Finance lease has more financial implications mar. in Operating lease from the point of view or both ;he lessor and the lessee.
[Answers (i) F, (ii) F, (in) F, (iv) T, (v) T, (vi) T, (vii)T, (viii) F, (ix) T, (x) T, (xi) F, (xii) F, (xiii) F, (xiv) T]

42. Multiple Choice Questions
1. In lease system, interest is calculated on
(a)Cash down payment,(b)Cash price outstanding,(c)Hire purchase price,(d)None of the above
2. A short-term lease which is often cancellable is known as
(a)Finance Lease,(b)Net Lease,(c)Operating Lease,(d)Leverage Lease
3. Which of the following is not a usual type of lease arrangement?
(a)Sale & leaseback,(b)Goods on Approval,(c)Leverage Lease,(d)Direct Lease
4. Under income-tax provisions, depreciation on lease asset is allowed to
(a) Lessor,(b)Lessee (c) Any of the two, (d)None of the two
5. Under the provisions of AS-19 'Leases', a leased asset is shown is the balance sheet of
(a)Manufacturer,(b)Lessor, (c)Lessee,(d Financing bank
6. A lease which is generally not cancellable and covers full economic life of the asset is known as
(a) Sale and leaseback, (b)Operating Lease,(c)Finance Lease,(d)Economic Lease
7. Lease which includes a third party (a lender) is known as(a)Sale and leaseback,(b)Direct Lease,(c)Inverse Lease,(d) Leveraged Lease
8. One difference between Operating and Financial lease is:
(a)There is often an option to buy in operating lease.(b)There is often a call option in financial lease.
(c)An operating lease is generally cancelable by lease.(d) A financial lease in generally cancellable by lease.
9. From the point of view of the lessee, a lease is a:

(a)Working capital decision,(b)Financing decision,(c)Buy or make decision,(d)Investment decision
10. For a lessor, a lease is a
(a)Investment decision,(b)Financing decision,(c)Dividend decision,(d)None of the above.
11. Which of the following is not true for a "Lease decision for the lessee?
(a) Helps in project selection (b)Helps in project financing (c)Helps in project location (d)All of the above.
[Answers 1. (b), 2. (c), 3. (b), 4. (a), 5. (c), 6. (c), 7.(d),8(c), 9(b), 10. (a), 11. (b)]

43. State whether each of the following is True (T) or False (F)
(i) Financial services refer to facilities relating to capital market.
(ii) Non-banking finance companies are engaged in financial services.
(iii) NBFCs provide financial services to corporate sector only.
(iv) All NBFCs operating in India must be registered with SEBI.
(v) Regulatory framework for NBFCs is provided by RBI.
(vi)Any NBFC can borrow funds on mutually agreed terms.
(vii) Prudential norms for Assets and Investments by NBFCs were framed on the recommendations of Narasimhan Committee.
(viii) Assets of NBFCs are also classified as Standard, Non-Standard, Doubtful and Lost.
(ix) NBFCs are not allowed to operate in Insurance sector.
(x) A merchant banker helps in procuring overdraft from a commercial bank.
(xi) All merchant bankers have to be registered with RBI.
(xii) A lead manager has post-issue responsibilities also.
(xiii) Merchant bankers should follow the prescribed code or conduct.
(xiv) Share capital issued by a company for the first time is known as venture capital.
(xv) A mutual fund can operate as a venture capital fund.
(xvi) A venture capital firm deals with a new, risky and untested product.
(xvii) All venture capital funds in India have been promoted by Government.
(xviii) Portfolio managers are not required to be registered.
(xix) A portfolio manager has to operate as per the code of conduct prescribed by SEBI.
(xx) Credit rating is an authoritative guarantee regarding; the credit position of a person.
xxi) RBI has prescribed guidelines for the operations of credit rating agencies in India.
xxii) Securitisation and Factoring are two sides of the same coin.
(xxiii) Securitization in India is regulated by RBI.
[Answers (i)F,(ii)T,(iii)F,(iv)F,(v)T,(vi) F,(vii) T, (viii) T, (ix) F, (x) F (xi) F, (xii) T, (xiii) T, (xiv) F, (xv) T ,(xvi) T, (xvii) F, (xviii) F, (xix) T, (xx)F, (xxi) F, (xxii) F, (xxiii)T]

44. State whether each of the following statements is True (T) or False (F)
(i)Valuation of bonds and of equity shares can be made by the same valuation model.
(ii) Equity shares cannot be valued because equity shares have no redemption.
(iii)Intrinsic value and market price of equity shares are always equal.
(iv)BV of an equity share is the best measure of valuation.
(v)In Dividend Discount Model, the valuation of equity shares is based on expected stream of dividends.
(vi) No-growth Dividend model, only next years' dividend is capitalised.
(vii)No-growth dividend model does not involve present value concept.
(viii)Gordon's Model and Constant Growth Model are one and same.
(ix) In Constant Growth model, the value of equity share ii sensitive to growth rate.
(x) In Constant Growth model, the value of equity share not sensitive to required rate of return.
(xi) For companies which are not expected to pay dividends equity shares cannot be valued.
(xii) In Walter's Model, the value of equity share depends upon the DP ratio.
(xiii) P factor is a measure of value of share.
(xiv) CAPM helps in determining required rate of return.
(xv) Face Value, Issue Price and Market Value of bond must be same.
(xvi) Market Value of debt instruments depends upon the market value of collateral.
(xvii) Basic or Current yield on a bond is calculated with reference to the face value or issue price of a debenture.
(xviii)YTM of a bond is the same as the IRR of the bond investment.
(xix) Bond valuation depends upon the discounted cash flow technique.
(xx) Bond Valuation is sensitive to both the interest rate and the required rate of return of the investor.
(xxi) Required rate of return and bond valuation are inversely related.
[Answers: (i) F, (ii) F, (iii) F, (iv) F, (v) T, (vi) T, (vii), E,(viii) T, (ix) T, (x) F, (xi) F, (xii) T, (xiii) F, (xiv) T, (xv) F, , (xvi) F, (xvii) F, (xviii) T, (xix) T, (xx) F, (xxi) T]

45. Multiple Choice Questions
1. Deep Discount Bonds are issued at
(a)Face Value,(b)Maturity Value,(c)Premium to Face Value,(d)Discount to Face Value.
2. Principal value of a bond is called the
(a)Maturity Value,(b)Issue Price,(c)Par Value,(d)Market Price.
3. If the required rate of return of a particular bond is less than coupon rate, it is known as
(a)Discount Bond,(b)Premium Bond,(c)Par Bond,(d)Junk Bond.
4. Market interest rate and bond price have

(a)Positive relationship,(b)Inverse relation,(c)No relationship,(d)Same relationship
5. If a coupon bond is selling at discount, then which of the following is true?
(a) Po < Par and YTM < coupon,(b) Po < Par and YTM > coupon
(c)Po > Par and YTM < coupon,(d) Po > Par and YTM > coupon
6. In the formula k_e (D_1/P_0) + g, D_1/P_0 refers to
(a)Capital gain yield,(b)Dividend yield,(c)Interest yield,(d)None of the above
7. The rate of interest payable on a bond is also called
(a)Effective Rate of Interest,(b)Yield to Maturity,(c)Coupon Rate,(d)Internal Rate of Return.
8. A long-term bond issued with collateral is called
(a)Junk Bond,(b)Treasury Bills,(c)Debenture,(d)Preference Share.
9. A company may call the bonds when
(a) Interest rates have dropped,(b) Interest rates have increased,(c)It is not earning profits,(d) None of the above.
10. Rate of Interest on convertible debenture is generally_____the rate on non-convertible debentures
(a)Lower than,(b)Higher than,(c)Same as,(d)None of the above.
11. A 16% bond with a face value of Rs. 250 is available for Rs. 200 in the market. They yield on the bond is
(a)16%,(b)20%,(c)80%, (d)32%
12. At time to maturity comes closer, than market price of a bond approaches
(a)Face Value,(b)Redemption Value, (c)Issue Price, (d)Zero Value.
13. Market Price of Bond and Market Rate of Interest
(a) Inverse relationship,(b)Positive relationship,(c)No relationship,(d)None of the above.
14. Which of the following is a feature of zero-coupon bonds?
(a)Sold at Par,(b)Sold at premium,(c)Pays no Interest,(d)Not Redeemable.
15. Bonds that are covered by specific collaterals are called
(a)Junk Bond,(b)Floating Rate Bonds,(c)Secured Bonds,(d)Deep Discount Bonds.
16.Which of the following will cause an increase in bond values?
(a)Decrease in Redemption Amount,(b)Decrease in Coupon Rate,(c)Increase in Redemption Amount,(d) Increase in Redemption Period.
17. Which of the following is always true for Bonds?
(a)FV of a Bond = Issue Price, (b)Redemption Value = Amount received by bondholder at maturity,
(c)Bonds are redeemable at market value, (d)All of the above.
18. In a 3 years Bond purchased and held till maturity, the rate earned is called
(a) Coupon Rate,(b)Yield to Maturity, (c) Current Yield,(d) Holding Period Return.
19. An investor should buy a bond if
(a)Intrinsic Value < Market Value,(b)Intrinsic Value > Market Value, (c)Market Value < Redemption Value,
(d)Market Value = Redemption Value.
20. In case the maturity period of a bond increases, the volatility
(a) Increases,(b)Decreases,(c)Remains same,(d)Both (a) and (b).
21. Current Market Price of a Bond is equal to its Par Value if
(a)Face Value is Rs. 1000,(b)Coupon is paid half yearly,(c)Coupon Rate = Current Yield, (d) It is a Government Bond.
22. If the coupon rate and required rate of return are equal, the value of the bond is equal to
(a) Market Value,(b) Par Value, (c)Redemption Value,(d) None of the above.
23. YTM of a Bond is not affected by
(a) Coupon Rate, (b)Issue Price, (c)Redemption Value,(d) Interest Amount.
24. If Coupon rate is less than Required Rate of Return; as the maturity approaches the discount on bond
(a)Increases,(b)Decreases,(c)Remains Constant,(d) None of the above.
25. An investor buys a bond today and sells after 3 months the rate of return realised is known as
(a)Yield to Maturity,(b)Current yield,(c)Holding Period Return,(d) Required Rate of Return.
[Answers 1. (d), 2. (c), 3. (c), 4. (b), 5. (b), 6. (b), 7. (c), 8. (c), 9. (a), 10. (a), 11. (b), 12. (b), 13. (a), 14. (c), 15. (c), 16. (c), 17. (b), 18. (b), 19. (b), 20. (a), 21. (c), 22. (c), 23. (b), 24. (b), 25. (c)]

46. State whether each of the following statements is True (T) or False (F).
(i) Principal objective of making investment is return, hence, risk can be ignored by an investor.
(ii) Return includes only the interest or dividend received from an investment.
(iii) Holding period return includes the capital gain as well as revenue return.
(iv) If more than one value of return is expected, then expected return can be ascertained with the help of probabilities.
(v) Risk refers to possibility of loss from an investment.
(vi) Business risk arises because of competition in the market.
(vii) Financial risk of a firm depends upon composition of capital structure.
(viii) Systematic risk is diversifiable.
(ix) Systematic risk remains fixed irrespective of number of securities in portfolio.
(x) Degree of risk and risk premium are positively related.
(xi) No investor is ready to take risk in whatsoever situation.
(xii) Standard deviation is better than coefficient of variation as measure of risk.
(xiii) Higher risk may be assumed by an investor if the r is lower.
(xiv) Variation in expected return from an investment is known as risk.
(xv) HM Model deals with evaluation of portfolios.
(xvi) Efficient Frontier consists of a large number or 23 portfolios.

(xvii) Capital Market Line show the MP of shares at the exchanges.
(xviii)CAPM establishes that the return of a security -m related to risk of that security.
(xix) β and σ cannot be used interchangeably.
(xv) β is a measure of expected return of a security.
(xxi) Security Market Line is the graphical presentation of security prices.
(xxi) CML and SML have same shape and conveys same ideas.
(xxiii)CAPM can be used for risk-return relationship of any type of asset.
[Answers (i) F, (ii) F, (iii) T, (iv) T, (v) F, (vi) T, (vii) T, (viii) F, (ix) T, (x) T, (xi) F, (xii) F, (xiii) F, (xiv) T, (xv) F,(xvi) T, (xvii) F, (xviii) T, (xix) T, (xx) F, (xxi) F, (xxii) F ,(xxiii)T]

47. Multiple Choice Questions
1. Beta, β, of risk-free investment is (a)Zero,(b)1, (c)-1, (d)None of these.
2. Return of a portfolio is
(a)Total Return of all elements,(b)Average Return of all elements,(c)Highest Return (d) Lowest Return
3. Which of the following is diversifiable risk?
(a)Inflation Risk,(b)Interest Rate Risk,(c)Seasonal Risk, (d)All of the above.
4. Which of the following is not a non-diversification
(a)Industrial recession,(b)Lock-out in a company,(c)Political Instability,(d)Both (a) and (c).
5. Which of the following is true? (a)Risk can never be reduced to zero,(b)Diversification always reduces risk to zero,(c)Diversification does not affect risk,(c)None of the above.
6. Standard deviation can be used to measure
(a)Risk of an investment,(b)Return of an investment, (c)Both(a)&(b) and (d) None of (a) and (b).
7. Which of the following is true?
(a) Higher the Beta, lower the risk, (b)Higher the Beta, higher the risk,(c)Risk is constant,(d)Beta is constant.
8. Amount of risk-reduction in a portfolio depends upon
(a)Market movement,(b)Degree of correlation,(c)No. of shares,(d) Both (b) and (c).
9. In a diversified portfolio, a new security adds
(a) Systematic Risk,(b) Unsystematic Risk,(c) Liquidity Risk, (d) None of the above.
10. Risk-Return trade off implies (a) Minimization of Risk, (b) Maximization of Risk, (c)Ignorance of Risk
(d) Optimization of Risk
11. Basic objective of diversification is
(a) Increasing Return, (b) Maximising Return, (c) Decreasing Risk, (f) Maximizing Risk.
12. Risk-aversion of an investor can be measured by
(a) Market Rate of Return,(b) Risk-free Rate of Return, (c) Portfolio Return, (d) None of the above.
13.Risk of a portfolio depends on
(a) Risk of elements, (b) Correlation of return ; (c) Proportion of elements, (d) All of the above.
14. Which of the following will increase the required rate of return?
(a)Increase in Interest Rates, (b) Increase in Risk-free Rate, (c)Increase in Degree of Risk-Aversion
(d) All of the above.
75. Systematic risk of a security can be measured by
(a)Coefficient of variation,(b)Standard Deviation,(c)Beta,(d)Range.
16. Which of the following is unsystematic risk to a firm?
(a)Inflation,(b)Surcharge of Income-tax,(c)Interest Rate,(d) Scarcity of Raw Material.
7. Total portfolio risk is equal to systematic plus
(a)Non-diversifiable,(b)Diversifiable,(c)Unavoidable,(d)None of the above
18. Which of the following is diversifiable through diversification?
(a)Systematic,(b)Unsystematic,(c)Both of the above,(d)None of the above
19. Which of the following is the variability of the return from a share associated with the market as a whole?
(a)Unsystematic, (b)Avoidable,(c)Systematic,(d)None of the above
20. Which of the following describes the relationship between expected rate of return and the standard duration?
(a)Characteristic Line,(b)Capital Market Line,(c)Security Market Line,(d)None of the above
21. Which of the following describe the relationship between expected rate of return and the P?
(a)Security Market Line,(b)characteristic Line,(c)Capital Market Line,(d)None of the above
22. Which of the following describes the relationship between systematic risk and return?
(a)Arbitrage Pricing Theory,(b)Capital Assets Pricing Model,(c)Harry Marketing Model,(d) Capital Market Line
23. In CAPM, β (Beta) factor measures (a) Return of an asset, (b) Risk of an asset,(c) Life of an asset,(d) Capital investment
24. Which is the beta for a treasury stock?
(a) Zero, (b) One, (c) Greater than one, (d) Less than one
25.Stock beta measures (a) EPS,(b)Debt Equity Ratio, (c)Dividend, (d) Stock Volatility
26. Risk avoidable through proper diversification is known as
(a) Portfolio Risk, (b) Unsystematic Risk,(c) Systematic Risk, (d) Total Risk
2 7. Expected Return on the market in 16% and Risk free rate is 6%, which of the following projects be accepted.
(a) A:β = 0.50, Return = 11.5%
(b) B: β = 1.25, Return = 18.0%
(c) C: β = 1, Return = 15.5%
(d) D: β = 2, return = 25.0%
28. If the intrinsic value of a share is less than the market price, which of the most reasonable?

(a) That shares have lesser degree of risk,(b)That market is over valuing the shares
(c)That the company is high dividend paying, (d) That market is undervaluing the share
29. An aggressive share would have a beta
(a)Equal to Zero, (b) Greater than one, (c)Less than Zero, (d)Equal to one
[Answers 1. (a), 2. (a), 3. (c), 4. (b), 5. (d), 6. (a), 7. b. , 8(b), 9. (a), 10. (d), 11. (c), 12. (d), 13. (d), 14. (d), 15. (c),16(d), 17. (b), 18. (b), 19. (c), 20. (b), 21. (a), 22. (b), 23. (b), 24(a), 25 (d), 26. (b), 27. (a), 28. (b), 29. (b).]

48. State whether each of the following statements is True (T) or False (F)
(i) Derivatives are securities similar to shares and debentures.
(ii) Underlying assets of a derivative must be a physical asset.
(iii) Standardised forward contracts may be called futures.
(iv) Forward contracts are traded only at computerised stock exchanges.
(v) All futures contract must be settled by delivery of the asset.
(vi) In case of futures, the counterparty guarantee provided by the exchange.
(vii) Futures contracts do have a theoretical price.
(viii) Seller of a futures contract incurs a loss when the future price increases.
(ix) Option premium is the price for getting a right against other party.
(x) In options, the option writer has a right against the option holder.
(xi) Options contract is only an extended version of a futures contract.
(xii) Call options and put options are inverse of each other.
(xiii) American options can be exercised only on the strike date.
(xiv) There is no fixed strike date in European options.
(xv) Option premium is one time non-refundable amount.
(xvi) Expiry date of an option contract is mutually decided by the parties.
(xvii) Loss of the call options holder is always limited.
(xviii) Loss of the put option holder is always limited.
(xix) Excess of call option market price over the strike price is called intrinsic value.
(xx) Intrinsic value of an option is non-negative.
(xxi) Swap deals with the delivery of a physical asset.
(xxii) Swap arrangements are always standardised.
(xxiii) All derivatives contracts on NSE are cash settled.
(xxiv) Futures and Options are available on the shares in India.
[Answers (i) F, (ii) F, (iii) T, (iv) F, (v) F, (vi) T, (vii) T, (viii T, (ix) T, (x) F, (xi) F, (xii) F, (xiii) F, (xiv) F, (xv) T, (xvi) F, (xvii) T, (xviii) T, (xix) T, (xx) T, (xxi) F, (xxii) F, (xxiii) T, (xxiv) 2]

49.Multiple Choice Questions
1. A Futures contract is standardized version of a
(a)Put option,(b)Call option,(c)Call + Put,(d)Forward contract
2. Margins are imposed on options sellers to safeguard the interest of
(a)Exchange,(b)Brokers, (c)Buyers,(d) d) All of the above
3. In Futures trading, the margin in payable to the broker by
(a)Buyer of Futures,(b)Sellers of Futures,(c)None of (a) and (b),(d)Both of (a) and (b)
4. A contract which gives the holder a right to buy a particular asset at a particular rate on or before a specified date is known as (a) European Option, (b) Straddle,(c) American Option, (d) Strangle
5. In India, derivatives in interest rates are regulated by (a) Securities and Exchange Board of India,(b) Forward Market Commission,(c) Reserve Bank of India,(d) Ministry of Finance
6. The maximum loss of a call option holder is equal to
(a) Strike-Spot Price,(b) Spot Price,(c) Premium,(d)So + Premium
7. The maximum loss of a put option writer is equal to
(a)Strike Price – Premium,(b)Strike Price,(c)Spot Price,(d)Strike Price plus premium
8. Intrinsic Value of a 'out of money' call option is equal to (a)Premium,(b)Zero,(c)Spot Price,(d)Strike Price
9. Holder of an American call option can (a)Buy the asset only on expiration,(b)Sell the asset on or before expiration,(c)Buy the asset on or before expiration, (d)Sell the asset only on expiration
10. How the increase in volatility in asset price, will affect the value of the option?
(a)Increase the value,(b)Decrease the value,(c)May not affect,(d)Any of the above
11. Holder of European put option can
(a) Sell the asset on or before expiry,(b)Sell the asset on or after expiry,(c)Sell the asset on expiry only (d) Sell the asset before expiry only
12. Maximum gain of a put option holder is restricted to
(a)Strike Price,(b)Spot Price,(c)Spot Price – Premium,(d)Strike Price - Premium
13. Break-even of a call option occurs when spot price is equal to
(a)Strike Price + Premium,(b)Strike Price – Premium,(c)Premium, (d)None of the above
14. Break-even of a Put option occurs when spot price is equal to
(a)Strike price + Premium,(b)Strike Price – Premium, (c)Premium,(d)None of the above
15. Before expiry date, the time value of a call option is
(a)Strike Price - Spot Price,(b)Spot Price - Strike Price,(c)Market Premium - Intrinsic Value,(d) Intrinsic Value
16. Out of 4 factors i.e.,(i) Dividend Yield, (ii) Market Interest, Rates, (iii) Time to Expiry, and (iv) Price volatility, which affect the premium of an option?(a) (i), (ii), and (iv),(b), (ii),(iii)and (iv),(c) (ii) and (iv),(d) (i), (iii) and (iv)
17. In Futures, the terms and conditions are standards with reference to

(a)Rate and Date only, (b)Quantity only,(c)Place of delivery only,(d)All of the above
18. In call options, which of the following has an m relation with its value?
(a)Volatility,(b)Time to Expiry,(c)Strike Price, (d)Spot Price
19. If Strike price is more than the spot price of the asset, the call option is known as
(a)American Option,(b)European Option,(c)Out of Money Option,(d)In the Money Option
[Answers l.(d), 2. (d), 3. (d), 4. (c), 5. (c), 6. (c), 7(a), 8(b), 9. (c), 10. (a), 11. (c), 12. (d), 13. (a), 14. (b), 15 (c), 16(d), 17. (d), 18. (c), 19. (c)]

50. State whether each of the following statement is True (T) or False (F)
(i) The terms mergers and takeovers refer to same type of situation.
(ii) Accounting Standard 14 (AS -14) classifies mergers as Vertical and Horizontal.
(iii) A conglomerate merger is a situation when all firms of a group are amalgamated into one.
(iv)'Poisson Pill' and 'White knight' are types of mergers.
(v) Increasing profit and lessening competition are the only objectives of mergers.
(vi) Financial evaluation of the target firm is a compulsory step in the merger process.
(vii) Assets and Earnings of the target firm can be used for evaluation of that firm.
(viii) Operating Cash flows to Firm (OCFF) are always more than Operating Cash Flows to Equity (OCFE).
(ix) Economic Value Added (EVA) of a firm is always positive.
(x) Swap Ratio and Share Exchange Ratio are one and the same thing.
(xi)In case the swap ratio is calculated on the basis of EPS, the market value of holding of equity shareholders would be protected.
(xii) In order to protect the earnings available to shareholders, the swap ratio should be based on EPS.
(xiii) In hostile Takeover bid, the price of the merger depends upon the mutual consent.
(xiv) In tender offer method, every shareholder has to sell his shares to the acquiring firm.
(xv) The aim of the new Takeover Code announced by SEBI is to make the process of takeover more transparent.
(xvi) Offer once made to acquire shares cannot be revoked.
(xvii) No competitive bid can be made for takeover of shares of other company
(xviii) Can a merger proposal be evaluated as a capital budgeting decision.
[Answers (i) F, (ii) F, (iii) F, (iv) F, (v) (F), (vi) T, (vii) T, (viii) T, (ix) F, (x) T, (xi) F, (xii) T, (xiii) F, (xiv) F, (xv) T, (xvi) F, (xvii) F, (xviii) T]

51.Multiple choice questions
1. A firm can acquire target firm by (a) Purchasing assets of Target, (b) Purchasing shares of Target, (c)Purchasing Assets or Shares(d)None of the above
2. ABC Ltd acquires substantial number of equity shares in XYZ Ltd. It is a case of
(a)Merger,(b)Acquisition,(c)Amalgamation,(d)Absorption
3. PQR Ltd. is a profit making company. It is absorbed into another group company XYZ Ltd. which is a loss company. This is a case of (a)Hostile takeover bid,(b)Horizontal Merger,(c)Reverse Merger,(d)Takeover
4. Under AS 14, and amalgamation in the nature of merger is a case where_____of shareholders of transferor company have agreed to become shareholders of transferee company.
(a) More than 50%, ,(b) 100%,(c) At least 90%,(d) 25% or more
5. Merger of two companies under BIFR supervision is known as (a) Reverse Merger, (b) Negotiated Merger, (c) Offer for Sale, (d) Arranged Merger
6. Which of the following is not a usual method of calculation of Share Swap Ratio?
(a)Profit before Tax,(b)Market Turnover,(c)Economic Value Added,(d)All of the above
7. An acquirer offer to buy shares directly from the share holders is known as
(a)Poison Rell,(b)White Knight,(c)Tender offer, (d)Takeover
8. Shares of A Ltd. and T Ltd. are currently traded at Rs. 100 and Rs. 25 respectively. The share swap ratio based on Market Price would be (a)1.00,(b)2.50,(c).40,(d).80
9. If a swap ratio is calculated on the basis of EPS, then which of the following would be protected for two groups of shareholders?
(a)Total Market Value,(b)Total Earnings,(c)Total Assets,(d)All of the above
10. If the Price-Earnings Ratio of two companies are same and they merge on the basis of share swap ratio (EPS based), which of the following will be protected for two groups of shareholders?
(a)Market Value and Earnings,(b)Earnings and Assets,(c)Paid-up Capital and Earnings,(d)Paid-up Capital and Market Values
11. ABC Ltd. acquires 100% of Preference Share Capital of PQR Ltd. It would result in
(a) Hostile Takeover bid, (b)Vertical Merger,(c)Holding-subsidiary relationship,(d)No relationship
12. Which of the following is a case of 'Spin off?
(a)Assets sold in the market,(b)A division converted into a company,(c) Assets transferred to lenders (d) None of the above
[Answers 1. (b), 2. (b), 3. (c), 4. (c), 5. (d), 6. (d), 7. (c), 8. (c), 9. (b), 10. (a), 11. (c), 12. (b).]
52. State whether each of the following statements is True (T) or False (F)
(i)Exchange rate refers to value of one currency in terms of $.
(ii)Value of a currency in terms of another currency remains same.
(iii)Direct Quote and Indirect Quote are inversely related.
(iv)Ask Price and Bid Price are quoted by a dealer in the market.
(v)Difference between Ask and Bid price gives rise to arbitrage in foreign exchange.

(vi)Forward Rate is not the same as would prevail on the fixed date in future.
(vii) Forward transactions generally give gain or loss to the parties.
(viii) Forward rates are quoted at premium or discount to the spot rate.
(ix) Forward rates are quoted only as outright rates.
(x) A 'plus' sign denotes a premium and a 'minus' signs denotes a discount in the forward exchange market.
(xi) A cross rate is the average of spot and forward rates
(xii) Inconsistency in the cross rates gives rise to arbitrage.
(xiii) Arbitrage in foreign exchange market arises due to inefficiencies of the market.
(xiv) Purchasing Power Parity Theorem and Interest Rite Parity Theorem are inverse of each other.
(xv) PPP contends that the exchange rates between two currencies adjust till the purchasing power parity is achieved.
(xvi) Relative PPP deals with the changes in exchange rates.
(xvii) Violations of PPP leads to arbitrage opportunities.
(xviii) Currency which has higher inflation rate devalues relative to the currencies having lower rates of inflation.
(xix) Fisher Effect deals with the interplay of interest rates and inflation rates.
(xx) International Fisher Effect contends that currency with higher interest depreciates.
(xxi) Interest Rate Parity Theorem deals with the money supply and foreign exchange rates.
(xxii) IRP helps understanding the determination of forward exchange rates.
(xxiii) Several types of tools of foreign exchange risk management are available to importers and exporters.
(xxiv) Expropriation refers to the risk arising out of change in rates.
[Answer (i) F, (ii) F, (iii) T, (iv) T, (v) F, (vi) T, (vii) T, (viii) T, (ix) F, (x) F, (xi) F, (xii) T, (xiii) F, (xiv) F, (xv) T, (xvi) T, (xvii) T, (xviii) T, (xix) T, (xx) T, (xxi) F, (xxii) T, (xxiii) T, (xxiv) F].

53. Multiple Choice Questions
1. Spot exchange rate is the rate of exchange between two currencies
(a) for immediate delivery,(b)for future delivery,(c)for delivery at a particular spot in future,(d)None of the above
2. Price of one currency in terms of another currency is knows as
(a)Exchange Rate,(b)Direct Route,(c)Ask Price,(d)Any of the above
3. No. of units of domestic currency required to buy one unit of a foreign currency is known as
(a)Indirect Route,(b)Cross-Rate, (c)Direct Route,(d)Spot Rate
4. Normally, direct ask price is_____ than the direct bid price.
(a)equal,(b)greater,(c)lesser,(d)None of the above
5. If the spot rate of $ in Mumbai is Rs. 45.50 and 1 month forward rate is ? 45.65, then which is correct for forward market? (a)That $ is at premium,(b)That $ is at discount,(c)Rupee is at premium,(d)None of the above
6. If the Spot Rate of $ in Mumbai is Rs. 46.70 and the 3 months rate is Rs. 46.45, then which is correct for the forward market?
(a)That Rupee is at premium,(b)That Rupee is at discount,(c)$ is at premium,(d)None of the above
7. Foreign Currency Exchange Rate risk can be hedged in (a)Options Market,(b)Futures Market,(c)Money Market,(d) All of the above
8. An Indian exporter has despatched goods worth $ 1,00,000 receivable in 2 months time. He can hedge exchange rate risk by:
(a)Buying a $ Call Option,(b)Selling a $ Call Option,(c)Buying a $ Put Option,(d)Selling a $ Put Option
9. Mr. X has to pay $ 5,00,000 in three months time for the imports made by him. Correct hedging policy for him would be to (a)Buy a $ Call Option,(b)Sell a $ Call Option,(c)Buy a $ Put Option,(d) Sell a $ Put Option
10. Relationship between Spot and Forward Exchange Rate s is referred to as
(a)Interest Rate Parity,.(b)Purchasing Power Parity,(c)Exchange Power Parity,(d)One-price rule
11. Adjustment in Exchange Rates due to different inflation rates in two countries is known as
(a)On Price Rate,(b)Interest Rate Parity,(c)Purchasing Power Parity,(d)Exchange Power Parity
12. Annual nominal Interest rates in country X and country Y are 6% and 12% respectively. Current exchange rate is 5 units of X per unit of Y. 3 months forward rate would be (a)4.756,(b)4.927,(c)5.295,(d)5.085
13. Purchasing Power Parity refers to that - (a)Interest rates across countries will eventually be same, (b)There is a relationship between spot and forward rates, (c)Goods should sell at the same price across countries after exchange rate considered. (d)None of the above
14. Forward exchange rate is the rate of exchange between two currencies
(a) prevailing today for future delivery,(b) would prevail at a future date,(c)prevailing today for immediate delivery,(d)None of the above
[Answers 1. (a), 2. (d), 3. (c), 4. (b), 5. (a), 6. (a), 7. (d), 8. (o, 9. (a), 10. (a), 11. (c), 12. (b), 13. (c), 14. (a)]

54. State whether each of the following statement is True (T) or s(F)
(i) Capital market includes money market and foreign exchange market.
(ii) Stock exchanges are a part of primary market segment.
(iii) Securities are issued in the secondary market segment.
(iv)SEBI is an association of stock exchanges in India.
(v) Primary objectives of SEBI include Investors' Protection and Regulation of capital market in India.
(vi) Badla system is prevailing in India.
(vii) Book-building system cannot be used for issue of shares.
(viii) Operations of stock exchanges are directly controlled by Government.

(ix) National Stock Exchange has been established by SEBI.
(x) OTCEI is a subsidiary of National Stock Exchange.
(xi) At the Stock Exchange, Mumbai (BSE Ltd.) the trading in shares is made through out-cry system.
(xii) The term 'bought out' deal is related to OTCEI.
(xiii) The efficiency with which the information is reflected in the market prices of securities, is denoted as the strength of the market.
(xiv) SEBI regulates the operations in both the primary and the secondary market.
(xv) New Issue Market is an element of primary market.
(xvi) Individual investors can deal with only in secondary market.
(xvii) National Stock Exchange of India is a Public Sector Organisation.
(xviii) In the on-line trading system at the National Stock Exchange, the badla system has been formalised.
[Ans. (i) F, (ii) F, (Hi) F, (iv) F, (v) T, (vi) F, (vii) F, (viii) F, (ix) F, (x) F, (xi) F,(xii) T, (xiii) F, (xiv) T, (xv) T, (xvi) F, (xvii) F, (xviii) F

55. State whether each of the following statement is True (T) or False (F)
(i) SEBI has been constituted under the Securities (Contracts and Regulation) Act, 1956.
(ii) SEBI is constituted from amongst the directors of various stock exchange.
(iii) The purpose of issuing different types of Rules and Regulation by SEBI is to bring monetary gains to the investors.
(iv) Government need not bother about the protection of the investors.
(v) SEBI has issued various guidelines to educate investors.
(vi) Mutual Fund is a pool of money belonging to various investors.
(vii) Money Market Mutual Funds are also traded at Stock Exchange.
(viii) Every Mutual Fund has to calculate the NAV as per the procedure given in the SEBI Guidelines.
(ix) Options and Futures Contracts in India are settled on calendar month basis.
(x) In Green Shoe Option, the investors are allotted as many shares as applied.
(xi) Demutualisation refers to separation of trading and ownership right of stock exchange.
(xii) GSO is available only in case of issue of shares by book building process.
(xiii) In Depository system, a shareholder is a beneficial owner.
(xiv) Depository participant is an agent of an investor.
(xv) In book-building process, the price of the security is announced by the company.
(xvi) Rolling Settlement is a system of settlement of accounts of brokers.
(xvii) Sensex is an index number of 50 shares.
(xviii) NSE and BSE are the only stock exchanges in India.
(xix) The oldest stock exchange in India is NSE.
(xx) Futures and Options in shares are traded only at BSE and NSE.
[Answer (i) F, (ii) F, (iii) F, (iv) F, (v) F, (vi) T, (vii) T, (viii) T, (ix) T, (x) F, (xi) T, (xii) T, (xiii)T, (xiv) F, (xv) F, (xvi) F, (xvii) F, (xviii) F, (xix) F, (xx) T]

56.Multiple Choice Questions
1 Assets Management company is formed
(a) To manage bank's assets,(b)) To manage mutual funds investments,(c)) To construct infrastructure projects
(d) To run a stock exchange
2. Prime duty of a merchant banker is
(a) Maintaining records of clients, (b) Giving loans to clients,(c) Working as a Capital Market Intermediary
(d)None of the above
3. Basic objective of a money market mutual fund is
(a) Guaranteed rate of return,(b) Investment in short-term securities,(c)Both (a) and (b),(d) None of (a) and (b)
4. Short selling refers to
(a) Buying shares and then selling them on the same day,(b) Selling shares without owning them,(c) Selling some shares out of a large holding,(d) Continuously selling shares in lots.
5. Which of the following is not regulated by SEBI?
(a) Foreign Institutional Investors,(b) Foreign Direct Investment,(c) Mutual Funds,(d) Depositories
6. Which of the following is true for mutual funds in India? (a)Exit load is not allowed,(b)Entry load is allowed,(c)Entry load is not allowed,(d)Exit load allowed is some cases
7. Which of the following is not available in India?
(a)Index Options,(b)Index Futures,(c)Commodity Options,(d)Commodity Futures
8. Which of the following is the benefit of Depositories? a) Reduction in the share transfer time to the buyer,
(b) Reduced Risk of stolen, fake, forged shares, (c) No Stamp duty on transfer of shares in dematerialized form
(d) All of the above
9. Credit Rating of a debt security is (a)Guarantee of Repayment,(b)Merely opinion,(c)Positive suggestion ,(d)None of the above
10. The first computerised online stock exchange in India was
(a)NSE,(b)OTCEI,(c)BSE,(d)MCX
11. Which of the following is working as demutualized stock exchange since from beginning?
(a)NSE,(b)BSE,(c)DSE,(d)All of the above
12. Which of the following derivative is not traded on Indian Stock Market?
(a)Index Options,(b)Stock Futures,(c)Index Futures,(d)Forward Rate Agreements
13. How many depositories are there in India? (a)2,(b)3,(c)0,(d) 1

14. The amount in unpaid dividend accounts of companies shall be transferred to the
(a)Dividend Equalisation Reserve of the company,(b)Investor Education and Protection fund,(c) Investor Protection Fund,(d) General Revenue Account of the Central Government
15. Secondary Market in India is regulated by
(a)Reserve Bank of India,(b)Securities and Exchange Board of India,(c)Ministry of Finance,(d) Forward Market Commission
16. …..funds do not have a fixed date of redemption.
(a) Open ended funds,(b)Close ended funds,(c)Diversified funds,(d) Both A and B.
17. In India, NIFTY and SENSEX are calculated on the basis of
(a) Market Capitalization, (b)Paid up Capital,(c) Free-float Capitalization,(d) Authorized Share Capital
[Answers 1. (b), 2. (c), 3. (b), 4. (b), 5. (b), 6. (d), 7. (c), 8. (d), 9. (b), 10. (b), 11. (a), 12. (d), 13. (a), 14. (b), 15. (b), 16. (a), 17. (c)]