Financial Management
Course : BBA IV
MCQ

1. Objective of financial management is:
   A. profit maximization
   B. wealth maximization
   C. assets maximization
   D. Sales maximization

2.Maximisation of Shareholders Wealth is reflected in
   A. Sales Maximization
   B. Number of Shareholders
   C. Market Price of Equity Shares
   D. none of the above

3.What is not a part of Investment decision in financial management ?
   A. Dividend Payout decision
   B. Working Capital Management
   C. Capital Budgeting Decisions
   D. Payable Management

4.Finance function involves:
   A. Procurement of finance only
   B. Expenditure of funds only
   C. Safe custody of funds
   D. Procurement and effective utilization of funds

5.The objective of wealth maximization takes into consideration:
   A. Risk related to uncertainty of returns
   B. Timing of expected returns
   C. Amount of returns expected
   D. All of the above

6.Which of the following is not a cash outflow for the firm?
   A. Depreciation
   B. Dividends
   C. Interest payments
   D. Taxes

7.Market Value Of the firm is a result of :

A. Investment Decision
B. Financing Decision
C. Risk-Return Trade off.
D. None of the above

8.Time value of money explains that:

A. A unit of money received today is worth more than a unit received in future
B. A unit of money received today is worth less than a unit received in future
C. A unit of money received today and at some other time in future is equal
D. None of them

9. Time value of money facilitates comparison of cash flows occurring at different time periods by:

A. Compounding all cash flows to a common point of time
B. Discounting all cash flows to a common point of time
C. Using either of A or B
D. Neither A nor B

10.Discounting technique is used to find out:

A. Terminal Value
B. Compounded Value
C. Present Value
D. Future Value

11.Time value of money is an important concept of finance because it takes in to accont:

A. Risk
B. Time
C. Compound Interest
D. All the above

12.Finance function involves:

A. Procurement of finance only
B. Expenditure of funds only
C. Safe custody of funds only
D. Procurement and effective utilization of funds

13.External sources of finance do not include:

A. Overdrafts
B. Debentures
C. Leasing
D. Retained Earnings

14.Internal sources of capital are those that are

A. Generated through outsiders such as suppliers
B. Generated through loans from commercial banks
C. Generated through issue of shares
D. Generated within the business

15.Capital budgeting is a part of:

A. Investment decision
B. Working capital management
C. Marketing management
D. Capital structure

16. Future Value of annuity is:.

A. Equal to Annuity Amount
B. Less than Annuity Amount
C. Compound value Annuity Factor
D. None of the above

17.A profitability index (PI) of .95 for a project means that __________.

A. The project's costs (cash outlay) are (is) less than the present value of the project's benefits
B. The project's NPV is greater than zero
C. The project's NPV is less than 1
D. The project returns 92 cents in present value for each current rupee invested (cost)

18.Capital Decisions are:

A. Reversible
B. Irreversible
C. Unimportant
D. All the above

19. Which of the following is not used in capital budgeting?

A. Time Value of Money
B. Sensitivity Analysis
C. Net Assets Value Method
D. Cash Flows

20.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

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

A. Expansion program
B. Replacement of an asset
C. Inventory Level
D. A & B

22. Capital budgeting decisions are based on:

A. Incremental profit
B. Incremental cash flows
C. Incremental assets
D. Incremental capital

23. 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)

24. The net initial investment is divided by uniform increase in future cashflows to calculate

A. Discounting period
B. Investment period
C. Payback period
D. Earning period

25. The rate of return to cover risk of investment and decrease in purchasing power as a resultof inflation is classified as

A. nominal rate of return
B. accrual accounting rate of return
C. Real rate of return
D. Required rate of return

26.Accounting Rate of Return is based on

A. Average expected Profits
B . Average Past Profits
C. Average Cash Profits
D. Life of the project

27.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

28. In Risk-Adjusted Discount Rate method, the normal rate of discount is:

A. Increased,
B .Decreased,
C .Unchanged,
D .None of the above

.29.In case of risky projects ,the required rate of return would generally be:

A. Higher
B. Lower
C. Same as for others
D. None of the above

30. Which of the following assumes that cash flows from a project are uniform through out the life of the project?

A. Internal Rate of Return
B. Net Present Value
C. Profitability Index
D. None of the above

31. Which one of the following statements is correct concerning the weighted average cost of capital (WACC)?

a) The WACC may decrease as a firm's debt-equity ratio increases
b) In the computation of WACC, weight assigned to the preferred stock is based on the coupon rate multiplied by the par value of the stock.
c) A firm's WACC will decrease as the corporate tax rate decreases.
d) The weight of the common stock used in the computation of the WACC is based on the number of shares outstanding multiplied by the book value per share.

32. Cost of Capital refers to:

(a) Flotation Cost,
(b) Dividend,
(c) Required Rate of Return,
(d) None of the above.

33.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.

34. Which of the following has the highest cost of capital?

(a) Equity shares,

(b) Loans,

(c) Bonds,

(d) Preference shares.

35. 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.

36. 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.

37. Weighted Average Cost of Capital is generally denoted by:

(a) ke,

(b) kd,

(c) k0,

(d) kp

38. 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.

39. Which is the most expensive source of funds?

(a) New Equity Shares,

(b) New Preference Shares,

(c) New Debts,

(d) Retained Earnings.

40. Marginal cost of capital is the cost of:

(a) Additional Sales,

(b) Additional Funds,

(c) Additional Interests,

(d) None of the above.

41 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).

42 In case of partially debt-financed firm, Ko is less

(a) Kd ,

(b) Ke,

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

(d) None of the above.

43. 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.

44. Firm's Cost of Capital is the average cost of:

(a) All sources,

(b) All borrowings,

(c) Share capital,

(d) Share Bonds & Debentures.

45. 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.

46. 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.

47. 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.

48. 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.

49. 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.

50. Operating leverage arises because of:

(a) Fixed Cost of Production,

(b) Fixed Interest Cost,

(c) Variable Cost,

(d) None of the above

51. Residuals Theory argues that dividend is a

(a) Relevant Decision ,

(b) Active Decision,

(c) Passive Decision,

(d) Irrelevant Decision

52. Dividend irrelevance argument of MM Model is based on:
(a) Issue of Debentures,
(b) Issue of Bonus Share,
(c) Arbitrage ,
(d) Hedging

53. 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.

54. 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.

55. 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

56.. If ke = 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

57. 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

58. 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

59. In case of Gordon's Model, the MPS 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 of the above

60. 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

Key for Mock Test

1	**b**	**13**	**d**	**25**	**a**	**37**	**c**	**49**	**b**
2	**b**	**14**	**d**	**26**	**d**	**38**	**c**	**50**	**c**
3	**c**	**15**	**a**	**27**	**d**	**39**	**a**	**51**	**c**
4	**d**	**16**	**b**	**28**	**a**	**40**	**b**	**52**	**c**
5	**d**	**17**	**c**	**29**	**c**	**41**	**b**	**53**	**c**
6	**a**	**18**	**d**	**30**	**b**	**42**	**b**	**54**	**c**
7	**b**	**19**	**c**	**31**	**a**	**43**	**d**	**55**	**b**
8	**a**	**20**	**d**	**32**	**c**	**44**	**a**	**56**	**c**
9	**c**	**21**	**a**	**33**	**d**	**45**	**c**	**57**	**a**
10	**c**	**22**	**b**	**34**	**a**	**46**	**c**	**58**	**c**
11	**d**	**23**	**d**	**35**	**a**	**47**	**c**	**59**	**c**
12	**d**	**24**	**c**	**36**	**d**	**48**	**d**	**60**	**b**