Financial Management II - SEM
B.Com Hon's

Unit – I
Financial Management & Time Value of Money

Multiple Choice Questions (MCQ's)

1. ____________ refers to that part of business activity which is concerned with the procurement and utilization of Financial Resources. [ ]
   a) Finance b) Business c) Financial Management d) General Management
2. _________ is an integral part of overall management. [ ]
   a) Business b) Financial Management c) General Management d) None
3. Financial Management is an ___________.
   a) An Art b) A Science c) Both a and b d) None
4. ____________ is also a backbone of commerce and industry of a nation.
   a) Bank b) Industry c) Financial Management d) Business [ ]
5. The scope of Financial Management are ___________.
   a) Deciding Capital Structure b) Selecting a Source of Finance c) Selecting a Pattern of Investment d) All of the above [ ]
6. Financial Management main aim is to use business funds in such a way the firms ____________ are maximized. [ ]
   a) Profit b) Value c) Capital d) Value or Earnings.
7. ___________ maximization is the appropriate objective of an enterprise.
   a) Profit b) Business c) Wealth d) A only. [ ]
8. __________ is the main aim of every economic activity.
   a) Capital b) Business c) Profit d) None [ ]
9. Role of Finance Manager [ ]
   a) Risk Management b) Investor Relations c) Working Capital Management d) All of the above.
10. A Financial Manager is also called as __________ for an corporate enterprise.
    a) Owner b) Stockholder c) Agent d) None [ ]
11. The conflict between owners and agent is called __________. [ ]
    a) Business Problem b) Conflicts c) Agency Problem d) None
12. Finance functions are organized by ___________. [ ]
    a) Controller b) Treasurer c) Controller & Auditor d) Auditor
13. Financial Management is concerned with [ ]
    a) The Planning and controlling of firms financial resources b) Arrangements of funds required by the firm c) Obtaining and effectively utilizing the funds necessary for efficient operations d) None

14. The basic objective of financial management is [ ]
    a) Maximization of profits b) Maximization of shareholders of wealth c) Maximization of Dividends d) None.
15. _______________ is value of money received today is more than the value of same amount of money received after certain period. [ ]
    a) Money b) Time of Money c) Time Value of Money d) Value of Money
16. Time Value of Money is referred to as ______________. [ ]
    a) Value of Money b) Time Preference of Money c) Time of Money d) None
17. Discounting or Present Value is ________________. [ ]
    a. Same as Compounding b) Exact opposite of compound or future value c) Slightly different from compounding technique d) None of these
18. Effective rate of interest in case of multi-period compounding grows [ ]
    a) Faster that yearly compounding b) Slower than the yearly compounding c) Same as yearly compounding d) None
19. Multiple Compounding period means [ ]
    a) Interest compounded annually b) Interest is calculated for a number of years c) Interest compounded for more than once a year d) None of the above.
20. _______________ is the length of period which amount is going to take to double at a certain given rate of interest. [ ]
    a) Compound Factor b) Doubling Period c) Future Value d) Present Value

Fill up the Blanks

1. _________ and ___________ is concerned with the Financial Management.
2. All decisions are inter related and involve trade off between ___ and ______.
3. ______________ is an important task of finance manger.
4. ______________ of ownership and management.
5. __________ serve as a protection against risks which cannot be ensured.
6. Wealth Maximization symbolically _____________.
7. Manager's Vs. Shareholder's goals is also called as ___________.
8. Preparation of Annual Report and Capital Budgeting functions of ____________.
9. Protecting funds and securities and maintaining relations with banks and other financial institutions is the function of _______________.
10. Financing decisions relating to debt and equity mix is the role of ___________.
11. ______________ profits enable a business to face risks like fall in prices, competition from other units, adverse government policies etc.
12. Rule 72 = ____________
13. Rule 69 = ______________
14. Compounding Technique can be calculated as ____________
15. Annuity Compound Technique can be calculated as _______

16. __________ value is exact opposite of compound or future value.
17. ___________ funds should be used in the best possible way.
18. Financial Manager is required to maintain some ___________ for meeting day-to-day needs.
19. Financial Management is ___________ in approach.
20. When the firm maximizes the stockholder's wealth, the individual stockholder can ___________ his wealth.

Short Questions

1. Financial Management
2. Profit Maximization
3. Wealth Maximization
4. Objective of Financial Management
5. Agency Problem
6. Annuity
7. Discount Rate
8. Present Value
9. Future Value
10. Techniques of Time Value

Unit – I Answer Key

Multiple Choice Questions

1. C 2. B 3. C 4. C 5. D 6. D 7. C 8. A 9. D 10. C 11. C 12. C 13. B 14. C 15. C 16. B 17. B 18. A 19. C 20. B

Fill up the Blanks

1. Planning and Controlling	6. $W_o = NP_o$
2. Risk and Return	7. Agency Problem
3. Estimating Financial Requirements	8. Financial Controller
4. Separation	9. Treasurer
5. Profit	10. Finance Manager
11. Accumulated	16. Present Value
12. 72/ Rate of Interest	17. Investment
13. 0.36 + 69/ Rate of Interest	18. Cash
14. $V_n = V_0(1 + i)^n$	19. Multi disciplinary
15. $V_n = R\ (ACF_{in})$	20. Use / Consume

Short Questions / Answer

1. It refers to that part of the management activity which is concerned with the planning and controlling of the firm's financial resources.
2. Profit earning is the main aim of every economic activity.
3. It is the appropriate objective of an enterprise. It is the single substitute for a stockholder's utility.
4. Its main aim or objective is to use business funds in such a way that the firms value / earnings are maximized.
5. It is a conflict between Agent (manager) and stockholders or shareholders is called agency problem. Manger's Vs. Shareholder's Goal.
6. An Annuity is a series of equal payments lasting for some specified duration.
7. To calculate the present value in such cases make use of Discount Factor or Discount Rate.
8. It shows what the value is today of some future sum of money.

9. Future value of a single payment made at time zero, and interested to know the future value of a series of payments made at different time periods.
10. Two technique for adjusting the time value of money (i) Compounding Technique (ii) Discounting or Present Value Technique

Unit – II

Cost of Capital & Capital Budgeting

1. The Capital in a firm may be in the form of _______ [ ]
   a) Debt b) Preference Share c) Equity Share d) Retained Earnings e) All
2. Cost of Capital is the minimum ____________ expected by the its Investors
   a) Rate b) Rate of Return c) Profit d) None [ ]
3. Cost of Capital my be represented as _________ [ ]
   a) K = r+f+b b) K = b+f+r c) K = r+b+f d) K = f+r+b
4. ______ costs are book costs which are related to the past [ ]
   a) Future Cost b) Specific Cost c) Historical Cost d) None
5. __________ cost refers to the cost of a specific source of capital [ ]
   a) Composite Cost b) Future Cost c) Explicit Cost d) Specific Cost
6. ________ cost is combined cost of various sources of capital [ ]
   a) Implicit Cost b) Future Cost c) Explicit Cost d) Composite Cost
7. Cost of capital of a firm is [ ]
   a) The minimum rate of return expected by its investors b) The maximum rate of return expected by its investors c) The marginal cost of Capital d) None of the above
8. Weighted average cost of capital is also known as [ ]
   a) Composite cost of capital b) Overall cost of capital c) Average cost of capital d) All of the above
9. Cost of Capital is not similar to one of the following [ ]
   a) Cut-off-Rate b) Target Rate c) Hurdle Rate d) Internal Rate of Return
10. _______ cost is the discount rate which equates the present value of cash inflows with the present value of cash outflows. [ ]
    a) Implicit Cost b) Historical Cost c) Explicit Cost d) Future Cost
11. Which is not Pay-Back Method? [ ]
    a) Pay-off Method b) Payout Method c) Recoupment Period Method d) None
12. Capital budgeting deals with [ ]
    a) Cash Management b) Management of working capital c) Managing Fixed Assets d) None of the above
13. A project has investment of Rs. 1,20,000 and yields annual cash inflow of Rs. 12,000 for 12 years. Find out payback period. [ ]
    a) 15 years b) 10 years c) 19 years d) None
14. When a project should be accepted under Profitability Index (P.I) [ ]
    a) When PI > 1.0 b) When PI < 1.0 c) When PI = 0 d) None of the above

Fill up the Blanks

1. Cost of Capital is the __________ rate of return expected by its investors.
2. K = r + __ + ___.
3. According to traditional approach cost of capital is affected by ________.
4. Cost of retained earnings is the _________ cost of dividends foregone by the shareholders.
5. Historical cost is also called as ___________.
6. _________ cost is related to the past.
7. ______ costs are estimated costs for the future.
8. _________ cost refers to the cost of a specific source of capital.
9. __________ cost is combined cost of various sources of capital.
10. The present value of Cash inflow = Cash outflow is ____________.
11. _________ is also known as the opportunity cost.
12. An ___________ cost refers to the combined cost of various sources of capital such as Debentures, Preference Shares and Equity Shares.
13. ________ cost of capital refers in the average cost of capital which has to be incurred to obtain additional funds required by a firms.
14. Capital budgeting is known as __________ and _________.
15. Capital Investment decisions are generally of ____________ nature.
16. Profitability Index is also known as __________ ratio.
17. The simplest capital budgeting technique is ___________.
18. Net Present Value of inflows is calculated by deducting _________ from the total _____.
19. ____________ ____ method is also a modern technique of capital budgeting.
20. Internal Rate of Return Method is also known as ______________.

Short Questions

1. Cost of Capital
2. Implicit Cost
3. Explicit Cost
4. Composite Cost
5. Average Cost
6. Specific Cost
7. Capital Budgeting
8. Pay-Back Period (Formula)
9. Profitability Index (Formula)
10. Average Rate of Return
11. Net Present Value
12. Internal Rate of Return

Unit – II Answer Key

Multiple Choice Questions

1. E 2. B 3. A 4. C 5. D 6. D 7. A 8. B 9. D 10. C 11. D 12. C 13.C 14. A

Fill up the Blanks

1. Minimum
2. F + B
3. Debt-Equity Mix
4. Equity Capital
5. Book Cost
6. Historical
7. Future
8. Specific
9. Compsite
10. Explicit Cost
11. Implicit
12. Average
13. Marginal
14. Investment Decision Making and Planning Capital Expenditure
15. Irreversible
16. Benefit / Cost
17. Pay-Back Period Method
18. Cost of Investment, Present Value of Cash Inflows
19. Internal Rate of Return
20. Time Adjusted Rate of Return (or) Discounted Cash Flow (or) Discounted Rate of Return (or) Yield Method (or) Trial and Error Yield Method.

Short Questions / Answer

1. The Cost of Capital of a firm is the minimum rate or return expected by its investors.
2. It is the discount rate which equates the present value of cash inflows with the present value of cash outflows.
3. It is known opportunity cost, the cost of opportunity foregone in order to take up a particular project.
4. It is the combined cost of various sources of capital.

5. It refers to the combined cost of various sources of capital such as debentures, preference shares and equity shares average.
6. It refers to the cost of a specific source of capital.
7. It is the process of making investment decisions in capital expenditure.
8. Initial Investment or Original Cost of the Asset / Annual Cash Inflows.
9. Present Value of Cash Inflows / Present Value of Cash Outflows
10. Total Profits or Average Annual Profits / Net Investment in the project x 100
11. The Net Present Value method is a modern method of evaluating investment proposal.
12. It is a modern technique of capital budgeting that takes into account the time value of money. It is also known as Time Adjusted Rate of Return or Discounted Cash Flow or Discounted Rate of Return or Yield Method or Trial and Error Yield Method.

Unit – IV

Capital Structure & Leverage's

Multiple Choice Questions (MCQ's)

1. According which theory, change in capital structure does not affect the market value of the firm [ ]
   a) Net Income Approach b) Net Operating Approach c) Traditional Approach d) None of the above
2. Which of the following factors does not influences the capital structure decisions. [ ]
   a) Cost of Capital b) Risk c) Corporate Tax Rate d) Composition of fixed Assets
3. When a firm uses more debt in the capital mix, the financial risk of the firm. [ ]
   a) Increases b) Decreases c) Remains Unchanged d) None of the Above
4. EPS refers to [ ]
   a) Earnings Plan Scheme b) Earnings Per Share c) Earnings Plan Scheme d) None of the Above
5. EBIT Stands for [ ]
   a) Earnings before interest but after tax
   b) b) Earnings before income and tax c) Earnings before interest and tax
   c) Earnings before tax but after interest
6. Long Term Capital resources viz., Loans, Reserves, Shares and Bond.
   a) Capital b) Sources of Funds c) Capital Structure d) None [ ]
7. The use of long term fixed interest bearing debt and preference share capital along with equity shares is called ____. [ ]
   a) Leverage b) Financial Leverage c) Capital Fund d) None
8. The capital structure of a firm is highly influenced by the ____ [ ]
   a) Growth b) Sales c) Growth and Stability of Sales d) None
9. Types of risk that are to be considered while planning the capital structure of a firm. [ ]
   a) Business Risk b) Financial Risk c) Both A and B d) None

10. In which Approach the risk perception of investors is not changed by the use of debt. [ ]
    a) Net Income Approach b) Net Operating Approach c) MM Approach d) None
11. ________ is identical with the Net Operating Income Approach if taxes are ignored. [ ]
    a) Traditional Approach b) Net Income Approach c) MM Hypothesis
    d) None
12. The _______ leverage occurs when a firm has fixed costs which must be recovered irrespective of sales volume. [ ]
    a) Financial b) Income c) Operating d) None
13. The ______ leverage focuses attention on the entire income of the concern.
    a) Operating b) Financial c) Optimum d) Composite [ ]
14. The Fixed Cost is also called as _________ [ ]
    a) Financial Cost b) Operating Cost c) Book Cost d) None
15. In which approach it is Perfect Market and Investors Rational [ ]
    a) Net Operating Approach b) Traditional Approach c) MM Approach or Hypothesis d) None

Fill up the Blanks

1. __________ can be established with the help of EBIT-EPS Analysis.
2. __________ is made up of debt and equity securities and to permanent financing.
3. Financial Leverage is also called __________
4. ________ refers to the variability of earnings before interest and taxes.
5. ______ refers to the risk of a firm that may not be able to cover its fixed financial costs.
6. __________ approach presumes the market capitalizes the value of the firm as whole.
7. The Traditional approach is also known as ___________.
8. In ___________ approach assumes the expected earnings of all the firms have identical risk characteristics.
9. Capital gearing refers to the relationship between equity capital and _____.
10. It is better for a company to remain in ________ gear during the period of depression.
11. The capital structure of company is made ________ and _______
12. Fixed cost bearing securities should be mixed with equity when the rate of earnings is more than the rate of __________ of the company.
13. The term operating leverage refers to the sensitivity of ___________.
14. In ________ leverage the high financial leverage may be offset against low operating leverage or vice-versa.
15. A firm earnings are more than what debt would cost is known to have a ____________
16. A firm does not earn as much as the debt costs than it will be known as an _____________
17. ___________ is use the firm's ability to use fixed cost assets or funds to increase the return to its owners.
18. EBIT stands for ___________

Short Questions

1. Capital Structure
2. Optimal Capital Structure
3. Traditional Approach
4. Business Risk
5. Financial Risk
6. Leverage
7. Financial Leverage
8. Operating Leverage
9. Composite Leverage
10. Two Assumptions of MM Hypothesis

Unit – IV Answer Key

Multiple Choice Questions

1. B 2. D 3. A 4. B 5. C 6. C 7. B 8. C 9. C 10. A 11. C 12. C
13. D 14. B 15. C

Fill Up the Blanks

1. EPS
2. Capital Structure
3. Trading on Equity
4. Business Risk
5. Financial Risk
6. Net Operating Approach
7. Intermediate Approach
8. MM Approach
9. Long term debt
10. Low
11. Debt and Equity
12. Interest
13. Operating Profit to Sales
14. Composite Leverage
15. Favorable Leverage
16. Un-Favorable Leverage
17. Leverage
18. Earnings before Interest and Taxes

Short Questions / Answers

1. It is made up of debt and equity securities and refers to permanent financing of a firm.
2. Defined as “that capital structure or combination of debt and equity that leads to the maximum value of the firm.
3. It is a compromise between the two extremes of Net Income Approach and Net Operating Approach.
4. It refers to the variability of earnings before interest and taxes.
5. It refers to the risk of a firm that may not be able to cover its fixed financial costs.
6. The firm’s ability to use fixed cost assets or funds to increase the return to its owners.
7. The use of long term fixed interest bearing debt and preference share capital along with equity share capital is called financial leverage.
8. The operating leverage occurs when a firm has fixed costs which must be recovered irrespective of sales volume.
9. It focuses attention on the entire income of the concern.
10. Two Assumptions are 1. There are no Corporate Taxes 2. There is perfect Market.

Unit – V

Dividend Policy & Dividend Theories

State whether the following statements are **True** or **False**

1. Payment of dividend involves legal as well as financial Considerations
2. Stock dividend affects liquidity position of the company
3. A Company should follow an ad-hoc dividend policy
4. The issue of bonus shares amounts to a corresponding increase in the paid up capital of the company
5. Reserves created by revaluation of fixed assets are permitted to be capitalized for the issue of bonus shares.
6. The declaration of bonus issue in lieu of dividend is allowed.
7. Bonus shares are not permitted unless the partly paid shares, if any, are made fully paid.
8. Premium received in cash is a sources of bonus issue.

Multiple choice Questions (MCQ)

1. Payment of dividend at the usual rate is termed as _______ dividend
   a) Stable b) Regular c) Irregular d) None [ ]
2. _______ means consistency or lack of variability in the stream of dividend
   a) Regular b) Irregular c) Liberal d) Stable
3. __________ means a policy under which a company retains large part of profits to finance future expansion and growth. [ ]
   a) Liberal b) Conservative c) Regular d) None
4. ______ policy a large part of profit is distributed among shareholders and a high pay-out ratio. [ ]
   a) Conservative b) Stable c) Conservative d) Regular
5. ________ is an important aspect of dividend policy [ ]
   a) Assets b) Capital c) Earnings d) Cost of Capital
6. The policy which effects the dividend decisions [ ]
   a) Economic Policy b) Taxation Policy c) Inflation d) All of the above
7. Forms of Dividend in the forms of ______ [ ]
   a) Cash b) Stock c) Property d) All of the above

8. Which model states the relationship of Return on Investment and the Cost of Capital [ ]
   a) Gordon Model b) Walter's Model c) MM Hypothesis d) None
9. Which Model states that dividends are relevant and the dividend decision of the firm affects its value [ ]
   a) Gordon Model b) MM Hypothesis c) Walter's Model d) None
10. Which Model state that dividend policy has no effect on the market price of the shares and the value of the firm is determined by the earning capacity of the firm or its investment policy [ ]
   a) MM Hypothesis b) Walter's Model c) Gordon Model d) None
11. According the Gordon the growth rate = g and retention ratio = [ ]
   a) k b) r c) b d) p
12. Assumptions of MM Hypothesis [ ]
   a) Investor Rational b) Perfect Capital Market
   c) No Floatation Cost d) All of the above

Fill up the Blanks

1. ______ is the distribution of profits of a company among its shareholders
2. Dividend policy of a firm affects both the long-term financing and ______
3. _______ dividend promises to pay the shareholders at a future date.
4. __________ dividend is usual method of paying dividend
5. _____ if the firm earns a higher rate of return on its investment then the required rate of return.
6. At ____ the firm optimum pay-out would be 100% and the firm distribute the entire earnings as dividends
7. _______ the dividend policy will not affect the market value of shares to the shareholders will get the same return for the firm as expected by them.
8. _________ decision materially affects the shareholders wealth and also the valuation of the firm.
9. _________ dividends are paid in the form of some assets other than cash
10. ______ dividends means the issue of bonus shares to the existing shareholders
11. ________ and __________ Policy of the government affects the dividend decisions

Short Questions

1. Walter’s Model
2. Gordon’s Model
3. M&M Approach or Model

Unit – V Answer Key

True (or) False

1. True 2. False 3. False 4. True 5. False 6. False 7. True 8. True

MCQ's Answers

1. B 2. D 3. B 4. C 5. C 6. D 7. D 8. B 9. A 10. A 11. C 12. D

Fill up the Blanks

1. Dividend
2. Shareholders Wealth
3. Scrip
4. Cash
5. r > k
6. r < k
7. r = k
8. Dividend
9. Property
10. Stock
11. Taxation and Economic

Short Questions / Answers

1. Prof. Walter's Approach supports the doctrine that dividend decisions are relevant and affect the value of the firm.
2. Myron Gordon has developed that dividends are relevant and the dividend decisions of the firm affects its value.
3. M&M Model based on that dividend policy has no effect on the market price of the shares and the value of the firm is determined by the earning capacity of the firm or its investment policy.