

**Sheth TJ Education Society's
Sheth NKTT College of Commerce & JTT College of Arts**

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- Subject: **Financial Management**
- Class: **M.com Part-II, Sem- IV**

Question bank of MCQ's

Unit-I

1. _____ is not applicable to commercial paper. (a)Face value, b) coupon rate, c) none of these d) current value)
2. _____ is a liability of a bank. (a)Treasury bills, b) certificate of deposits, c) commercial papers, d) bills of exchange)
3. _____ is a type of unsecured short term debt. (a)Commercial paper, b) government bond, c) equity share capital, d) preference share capital)
4. Cash discount terms offered by trade creditors never be accepted because _____.
(a)Benefit is very small, b) cost is high, c) none of these, d) cost is very low)
5. _____ is the type of collateral security used for short term loan. (a)Stock of goods, b) real estate, c) equity share, d) bonus shares)
6. Stock of goods is the type of _____ security. (a)Real, b) collateral, c) fictitious, d) tangible)
7. Commercial paper are generally issued as a prices _____. (a)Equal to face value, b) more than face value, c) less than face value, d) neither of these)
8. Debenture interest & capital repayment are ____payments. (a)Obligatory, b) Nominal, c) Real payments, d) statutory)
9. Bridge finance facility generally taken for _____ period. (a)Long term, b) Short term, c) Medium term, d) none of the above)
10. Bonds are _____ debt capital. (a)Long term, b) Short term, c) Medium term, d) none of the above)
11. Retained Earnings is _____cash. (a)Surplus, b) nominal c) negligible d) excess
12. Credit purchase can be _____source of finance (a) Long term b) Short term, c) Medium, d) annual)
13. Short-term _____debenture are not popular among Indian corporates. (a) Unsecured b) secured c)redeemable, d) convertible)
14. _____discount terms offered by trade creditors never be accepted (a) bill b) Cash c) loan, d) advance)
15. _____is liability for bank (a) Bill of Exchange b) Commercial Paper c) Certificate of Deposits, d) fixed deposit)

16. _____ is short term source of finance (a) Trade credit b) preference shares c) Bonds, d) Debentures)
17. _____ is long term source of finance (a) Trade credit b) preference shares c) Bonds, d) Debentures)
18. _____ is long medium source of finance (a) Trade credit b) preference shares c) Bonds, d) letter of intent)
19. Retained Earnings belongs to _____ (a) customer b) share holder c) dealer, d) stakeholders)

Unit-II

20. Capital budgeting is part of _____. (a) Investment decision, b) capital structure, c) WC management, d) credit structure)
21. Capital budgeting decision are _____. (a) Reversible, b) irreversible, c) unimportant, d) transferable)
22. A sound capital budgeting technique is based on _____.
(a) Cash flows, b) accounting profit, c) last dividend paid, d) reserves)
23. Capital budgeting decision are based on _____.
(a) Incremental profit, b) incremental capital, c) incremental cash flows, d) retained earnings)
24. Capital budgeting deals with _____. (a) Long term decision, b) short term decisions, c) both, d) none of the above)
25. _____ cost is not relevant cost in capital budgeting (a) Opportunity b) Sunk cost c) real cost, d) nominal cost)
26. _____ cost is relevant cost in capital budgeting (a) Opportunity b) Sunk cost c) real cost, d) indirect cost)
27. Cash inflows from project include _____ (a) Tax shield of depreciation b) Raising of fund c) Tax liability, d) depreciation)
28. _____ not used in capital budgeting (a) NPV, b) time value of money c) Sensitivity analysis, d) fundamental analysis)
29. _____ is used in capital budgeting (a) NPV, b) Asset measurement c) Sensitivity analysis, d) fundamental analysis)
30. _____ has no effect on project cash flows (a) Tax rate change b) Salvage value c) Method of project financing, d) depreciation)
31. The residual value is considered in a net _____ value computation. (a) Present b) future c) historical, d) commercial)
32. The cost of the Machine is Rs.15,00,000 & Expected life is 5 years What will be Depreciation of Machine? (a) 4,00,000 b) 3,00,000 c) 2,00,000, d) 5,00,000)

33. PV of Cash Inflow is Rs. 23,650 and PV of Cash Out is Rs. 22,000. What is the Profitability Index? (a) 1.75, b) 1.80, c) 1.50, d) 1.90)
34. PV of Cash InFlow is Rs. 32,256 and NPV is Rs. 2,256. What is the Cost of Investment? (a) 20,000 b) 30,000 c) 40,000, d) 50,000)
- 35) When Total Present Value is Rs. 1,43,520 and Cash Out flow is Rs. 80,000, then calculate the value of NPV. (a) 63,520 b) 63,205 c) 63,500, d) 68,000)
- 36) The cost of the Machine is Rs. 20,00,000 & Expected life is 5 years What will be Depreciation of Machine? (a) 400,000 b) 3,00,000 c) 3,50,000, d) 4,50,000)
- 37) PV of Cash InFlow is Rs. 4,35,671 and PV of Cash Out is Rs. 2,70,000. What is the Profitability Index? (a) 1.61 b) 2.31 c) 1.68, d) 1.98)
- 38) PV of Cash InFlow is Rs. 45,698 and NPV is Rs. 4,256. What is the Cost of Investment? (a) 41,000 b) 41,442 c) 40,000, d) 30,000)
- 39) Present Value of cash inflow for 15% is Rs. 10,10,930 and 16% is Rs. 9,70,222. Cost of Machinery being Rs. 10,05,000 Calculate IRR. (a) 15.612% b) 15.145% c) 15.800%, d) 15.801)
- 40) ABC Ltd. is considering the purchase of a machine whose cost is Rs. 15,000. Assuming the annual cash savings from using this machine is Rs. 5,900 before depreciation (Rs. 2,400) and tax and tax rate is 50%, calculate cash inflow. (a) 4150 b) 4500 c) 4600 d) 5600)
- 41) The number of years taken by a project to recover the initial investment is called ____
(a) Pay back investment b) Pay back cost c) Payback Period) d) payback value
- 42) Depreciation is _____ cost. (A) non- cash b) cash c) both d) none)
- 43) The basic rule in capital budgeting is that if a project's NPV exceeds its IRR, then the project should be _____ (a) canceled b) accepted c) Rejected, d) honored)
- Unit-III**
- 44) The total Current Assets without deducting the Current Liabilities _____ (a) Gross Working Capital c) Permanent Working Capital b) Net Working Capital d) Temporary Working Capital)
- 45) When Cash is received against overdraft from bank _____
(a) There is an increase in Net Working Capital
b) There is an increase in Gross Working Capital
C) There is an increase in both the Gross and the Net Working
d) There is no effect on both the Gross and the Net Working Capital)
- 46) Permanent Working Capital is also known as ____ (a) Gross Working Capital b) Net Working Capital c) Core Working Capital d) Fixed Capital)

- 47) The amount of funds invested in current assets is called ____ (a) gross working capital
b) net working capital c) surplus capital d) none of these)
- 48) ____ will ensures high return on investment. (a) adequate working capital b) surplus
working capital c) shortage of working capital d) none of these
- 49) Shortage of working capital may result in ____ (a) Poor credit standing b) More trade
discount c) more cash discount d) none of the above)
- 50) The term net working capital refers to ____ (a) the excess of the current assets over
current liabilities (b) the liquid assets c) the total current assets less provisions d) none of
these)
- 51) Cash Budget does not include ____ (a) Dividend Payable b) Postal Expenditure c) Issue
of Capital d) Total Sales figure
- 52) Which of the following is not a motive to hold cash ____ (a) Transaction Motive b)
Precautionary Motive c) Capital Investment d) None of the above)
- 53) Difference between the bank balance as per Cash Book and Pass Book may be due
to ____ (a) Overdraft b) Factoring c) Float d) None of the above
- 54) Miller-Orr Model deals with ____ (a) optimum Cash Balance b) Optimum Finished
Goods c) Optimum Receivables d) All of the above
- 55) Float management is related to ____ (a) Cash Management (b) Inventory Management
(c) Receivables Management (d) Raw Materials Management
- 56) 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.
- 57) Baumol's Model of Cash Management attempts to ____ (a) Minimize the holding cost b)
Minimization of transaction cost c) Minimization of total cost d) Minimization of cash
balance)
- 58) 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
- 59) Basic characteristic of short-term marketable securities (a) High Return b) High Risk c)
High Marketability d) High Safety
- 60) Marketable securities are primarily ____ (a) Equity shares b) Preference shares c) Fixed
deposits with companies d) Short-term debt investments.
- 61) Some managers express the opinion that their "cash management problems are nothing
more than inventory problems." They then proceed to use cash management models, such as
the EOQ model, to determine the ____ (a) Credit and collection policies b) Marketable
securities level c) Proper relationship between current assets and current liabilities d) Proper
blend of marketable securities and cash.
- 62) According to John Maynard Keynes, the three major motives for holding cash are for

(a) Transactional, psychological, and social purposes b) Speculative, fiduciary, and transactional purposes c) Speculative, social, and precautionary purposes d) Transactional, precautionary, and speculative purposes

63) Methods of accelerating cash collections include all of the following except _____ (a) Decentralized collections b) Compensating balances c) Electronic funds transfers d) Lockbox systems

64) A working capital technique which delays the outflow of cash is _____ (a) Factoring b) A demand draft c) A lock-box system (d) Electronic funds transfer

65) During the four busiest days in a month, the finance manager estimates the cash outflows to be Rs.12,000, Rs.18,000, Rs.24,000 and Rs.36,000. The finance manager desires sufficient cash to cover Payments for 5 days during the peak periods. The safety 60,000 level of cash to be maintained is. _____ (a)Rs. 40,000, b) Rs.60,000 c) Rs.90,000 d) Rs. 80,000)

66) ABC Ltd's 6 days cash outflows in the month of April are Rs.6,000, Rs. 5,000, Rs.7,000, Rs.4,000 Rs.5,000, Rs.3,000. The company desires to have sufficient cash to cover payments for 4 days during peak periods. The safety level of cash is _____ (a) Rs.10,000, b) Rs.20,000 c)Rs. 30,000 d) Rs. 40,000.

67) The following data is available for PQR Ltd. Estimated cash requirement over 6 months planning period = Rs. 5,00,000 Fixed conversion costs = 2,000 Annual interest rate on marketable securities = 9% The amount of securities that should be liquidated per batch is _____ (a) 3.22 lakh (b) 2.11 lakh (c) 1.22 lakh (d) 1.12 lakh.

68) Suppose, the upper limit and lower limit of cash balances are Rs.80,000 and Rs. 20,000 respectively. The return-point according to Miller and Orr Model will be _____ (a) Rs. 20,000 b)Rs.25,000 c) Rs.30,000 d) 40,000.

69) Which of the following is not an element of credit policy ____ (a) Credit Terms b) Collection Policy c) Cash Discount Terms d) Sales Price

70) 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)

71) 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)

72) 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)

73) 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)

74) Receivables Management deals with _____ (a) Receipts of raw materials (b) Debtors collection (c) Creditors Management (d) Inventory Management)

75) Which of the following is a technique for monitoring the status of the receivables ____

a) Ageing Schedule b) Outstanding creditors c) Selection Matrix (d) Funds Flow Analysis)

76) When a company offers credit terms of 2/10, net 30, the annual interest cost, based on a 360day year, is ____ (24.0% (b) 35.3% c) 36.0% d) 36.73%)

77) What can be the annual cost for a firm, for maintaining accounts receivables if its daily sales are Rs. 40,000, average collection period is 4 days, and cost of funds is 8% p.a. ____ (a) 12,800 b) 10,000 c) 7,500 d) 5,500)

78) Vishal Brick Company sells on terms of 3/10, net 30. Gross sales for the year are and the collections department estimates that 30% of the customers pay on the tenth day and take discounts; 40 percent pay on the thirtieth day; and the remaining 30% pay, on average, 40 days after the purchase. The average collection period is (assuming 360 days per year). ____ (a) 27 days (b) 35 days (c) 43 days (d) 54 days.

79) P Ltd.'s present sales is Rs. 20,00,000 and has extended credit period to 'net 45 days'. The company is expecting to increase its sales by Rs. 5,00,000 and the contribution to sales ratio is 20%. What is the additional profit arising out of new sales ? ____ (a) Rs. 1,00,000 b) Rs. 2,00,000 c) Rs. 3,00,000 d) 4,00,000.

80) Inventory holding cost may include ____ (a) Material Purchase Cost (b) Penalty charge for default c) Interest on loan d) none of the above

81) 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

82) Which of the following is not included in cost of inventory? ____ (a) Purchase cost (b) Transport in Cost (c) Import Duty (d) Selling Costs)

83) System of procuring goods when required, is known as ____ (a) Free on Board (FOB) b) always Butter Control (ABC) (c) Just in Time (JIT) (d) Economic Order Quantity

84) The annual demand of a certain component bought from the market is 1, 000 units. The cost placing an order is 60 and the carrying cost per unit is Rs. 3 p.a. The Economic Order Quantity for the item is ____ . (a) 200 (b) 400 c) 600 d) 300)

85) A firm requires 16,000 Nos. of a certain component, which it buys at 60 each. The cost of placing an order and following it up is Rs.120 and the annual storage charges works out to 10% of the cost of the item. To get maximum benefit the firm should place order for ____ units at a time. (a) 1,000 (b) 900 (c) 800 (d) 600)

86) A manufacturer used 400 units of component every month and he buys them entirely from an outside supplier @ Rs.40 per unit. The order placing and receiving cost is Rs.100 and storage & carrying cost is 15% of the value of stock. To get maximum benefit, he should place an order for ____ units at a time. ((a) 300 (b) 400 units (c) 450 units (d) 500 units)

87) VED analysis is for ____ (A) Monitoring and controlling of stores and spare parts

b) Monitoring and controlling of finished goods c) Monitoring and controlling of production process d) Monitoring and controlling of raw material.

Unit: IV

88) The classification of fixed and variable cost has a special significance in the preparation of ____ (a) Flexible budget (b) Cash budget (c) capital budget (d) Zero-based budget)

89) When a flexible budget is used, then increase in the actual production level within a relevant range would increase _____ ((a) Total cost (b) Variable cost (c) Fixed cost

(d) Both (a) and (b) above)

90) When a flexible budget is used, a decrease in the actual production level within a relevant range would _____ ((a) Decrease variable cost per unit (b) Decrease variable costs

(c) Increase total fixed costs (d) Increase variable cost per unit)

91) If the activity level is reduced from 80% to 70%, the fixed cost _____ (a) will decrease by 10% (b) will increase by 10% (c) per unit will decrease (d) per unit will increase.

92) Which of the information below should be contained in a budget manual? _____

((a) An organization chart (b) Timetable for budget preparation (c) A list of account codes (d) All (a), (b) and (c))

93) A budget that gives a summary of all the functional budgets is known as _____ ((a) Capital budget (b) Flexible budget (c) Master budget (d) Fixed budgets)

94) A master budget comprises _____ (a) The budgeted profit and loss account (b) Budgeted cash flow, budgeted profit and loss, budgeted balance sheet (c) Budgeted cash flow (d) Entire sets of budgets prepared.

95) When preparing a production budget, the quantity to be produced equals: _____

a) Sales quantity + opening stock + closing stock

b) Sales quantity — opening stock + closing stock

(c) Sales quantity — opening stock — closing stock

(d) Sales quantity + opening stock — closing stock

96) A company has the following budget for the next month:

Finished

sales - 7,000 units

Production units - 7,200 units

Product Materials

Usage per unit - 3 kg

Opening stock - 400 kg

Closing stock – 500 kg

What is the material purchases budget for the month?

(a) 20,900 kg (b) 21,100 kg (c) 21,500 kg (d) 21, 700 kg)

97) ABC Ltd. uses the following flexible budget formula for annual maintenance cost:

Total cost = Rs.6, 720 + 0.64 per machine hour

The current month's budget is based on 20,000 hours of planned machine time. The maintenance cost included in this flexible budget for the current month is ____ (a) Rs. 12,240 (b) Rs.12,800 (c)Rs.13,360 (d)Rs.13,600.

98) The budgeted cost of electricity is Rs.62,500 for 5,000 units of production per month and Rs.71 ,500 for 6,200 units of production per month. If the company manufactures 6,900 units in the month of May 2014, the budgeted amount of electricity for the month is ____

(a) Rs. 74,360 (b) Rs. 76,750 (c) Rs. 77,770 (d) Rs. 79,572

99) _____ budget is calculated from the desired ending inventory and the sales forecast. (a) Production b) sales c) Flexible budget d) Master)

100) ____ Budget is a Budget of income or expenditure appropriate to, or the responsibility of, a particular function." (Production b) sales c) Flexible budget d) functional Budget)

101) CIMA has defined a Budget _____ as - "A section of the organization of an undertaking defined for the purpose of Budgetary Control."(a) Unit b) center c) area d) office)

102) CIMA has defined a _____ Budget as - "The summary Budget incorporating its component functional Budgets." (a) Master b) Flexible c) functional Budget d) Production)

103) CIMA had defined a _____ Budget as - "A Budget which is designed to remain unchanged irrespective of the level of capacity or volume." (a) Master b) Fixed c) functional Budget d) Production)

104) CIMA has defined _____ Budget as - "A budget which, by recognizing the difference between fixed, semi-fixed and variable costs, is designed to change in relation to the level of activity attained." (a) Master b) Flexible c) functional Budget d) Production)

105) CIMA has defined a _____ Factor as - "the factor the extent of whose influence must first be assessed in order to ensure that the functional Budgets are reasonably capable of fulfillment."(a) Principal b) down payment c) Interest c) Principal + Interest)

Unit-V

106) Which of the following is a function of the finance manager? _____

(a) Mobilizing funds (b) Deployment of funds
(c) Control over the uses of funds (d) All of the above

107) Shareholder wealth in a firm is represented by _____

(a) The number of people employed in the firm b) The book value of the firm's assets less the book value of its liabilities c) The amount of salary paid to its employees d)The market price per share of the firm's common stock)

108) Financial decision involve____(a)Investment, financing and dividend decision b) Investment, financing and sales decision c)Financing, dividend and cash decision (d) None of these)

109) Wealth maximization as the goal of the firm implies enhancing the wealth of ____ (a) the Board of Directors (b) the firm's employees(c) the federal government(d)the firm's stockholders)

110) The goal of profit maximization would result in priority for_____(a)cash flows available to stockholders b) risk of the investment c)earing's per share d) timing of the returns

111) which of the following describe the Control function of Management?

(a) Setting short and long-term objectives (b) Comparing actual to budgeted results and taking corrective action (c) Taking actions to implement the plan(d) Arranging the necessary resource to carry out the plan)

112) Strategy is a broad term that usually means the selection of overall objectives. Strategic analysis ordinarily excludes the_____(a) trends that will affect the entity's markets b) Target product mix and production schedule to be maintained during the year c) Forms of organizational structure that would best serve the entity d) Boat ways to invest in research, design, production, distribution, marketing, and administrative activities.

113) Which one of the following management considerations is usually addressed first in strategic planning?_____(a)Outsourcing b)Overall objectives of the firm c) Organizational structure d) Recent annual budgets.

114) All of the following are characteristics of the strategic planning process except the_____((a) Emphasis on long run b) Analysis of external economic factors c) Review of the attributes and behavior of the organization's competition d) Analysis and review of departmental budgets)

Fill in the blanks answer keys

Unit-I

1)-c, 2)-b, 3)-a, 4)-c ,5)-a ,6)-b ,7)-c ,8)-a ,9)-b ,10)- a,11)-a ,12)-b ,13)-a,14)-b-,15)-c,16)-a,17)-b, 18)-c, 19)-b, 20)-a

Unit-II

20)-a ,21)-b, 22)-a, 23)-c, 24)-a, 25)-b, 26)-a, 27)-a,28)-c, 29)-a, 30)-c, 31)-a, 32)-b, 33)-a, 34)-b, 35)-a, 36)-a, 37)-a, 38)-b, 39)-b, 40)-a, 41)-c, 42)-a, 43)-b

Unit-III

44)-a, 45)-b, 46)-c, 47)-a, 48)-a, 49)-a, 50)-a, 51)-d, 52)-c, 53)-c, 54)-a, 55)-a, 56)-c, 57)- c, 58)-d, 59)-c, 60)-d, 61)- d, 62)- d, 63)- b, 64)-b, 65)-c, 66)-b, 67)-b, 68)-d, 69)- d, 70)-a, 71)-d, 72)-b, 73)-a, 74)-b, 75)-a, 76)- d, 77)-a, 78)-a, 79)- a, 80)-d 81)-c, 82)-d, 83)-c, 84)-a, 85)-c, 86)-b, 87)-a

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Unit-IV

88)-a, 89)-d, 90)- b, 91)- d, 92)-d, 93)-c, 94)-b, 95)-b, 96)- d, 97)- c, 98)-b 99)-a, 100)-d, 101)- b, 102)-a, 103)-b, 104)-b, 105)-a,

Unit-V

106)-d, 107)-d, 108)- a, 109)-d, 110)-c, 111)-b, 112)-b, 113)-b, 114)-d.

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