M.Com. Part II

Corporate Finance

Sample Questions (Multiple Choice Questions)

Following questions are provided for the benefit of students. These are indicative only

Unit I: Scope and Objectives of Financial Management

1. Wealth Maximisation is _________ concept in Financial Management.
2. ______________ concept considers time value of money.
3. Main functions of Financial Management are ___________________
4. ___________________ is Criteria for objective of Financial Management.
5. State which of the following are not correct?
   A. Profit Maximisation is superior concept compare to Wealth Maximisation.
   B. Capital Budgeting is not a function of Financial Manager.
6. Match the following

I. Capital Budgeting	A. Financing Decision
II. Working Capital	B. Investment Decision
III. Issue of shares or Debentures	C. Short Term Decisions

7. Finance Function comprises _______.
8. The objective of wealth maximization considers _______.
9. Financial management mainly focuses on ______.
10. Which of the following are True in case of Profit Maximisation?
    A. Profit Maximisation consider Time value of money
    B. In case Profit Maximisation there is ambiguity about profit to be considered
    C. Profit Maximisation consider profit as well as Social aspects.
11. Which of the following are functions of Financial Management?
12. "Shareholder wealth" in a firm is represented by: _________ .
13. The market price of a share of common stock is determined by:
14. Which of the following is not the responsibility of financial management?
15. Which of the following are not among the daily activities of financial management?

Unit II: Time Value of Money

16. Money has time value because:
    A. Individuals prefer future consumption to present consumption.
    B. Money today is more certain than money tomorrow

C. Money today is worth more than money tomorrow in terms of purchasing power.
D. There is a possibility of earning risk free return on money invested today.

17. If you want to investment Rs. 10,000 for a period of five year, it is better to invest in a scheme that pays:
18. If the interest rate on a loan is 1% per month, the effective annual rate of interest is:
19. If a loan of Rs. 1,20,000 is to be paid in 5 annual installments with interest rate of 12% p.a. then the equal annual installment will be _______.
20. If the nominal rate of interest is 10% per annum and there is quarterly compounding, the effective rate of interest will be:
21. A bond has a face value of Rs. 1000 and a coupon rate of 10%. It will be redeemed after 4 years at 10% premium. Find the present value of bond at a required rate of 12%:
22. You want to buy an ordinary annuity that will pay you Rs.4,000 a year for the next 20 years. You expect annual interest rates will be 8 percent over that period. The maximum price you would be willing to pay for the annuity is closest to
23. You are going to place Rs.12,500 into a certificate of deposit (CD) at a 6% annual rate (compounded annually) with a maturity of 30 months. How much money will you receive when the CD matures?
24. Money has time value because __________.
25. . The rate of interest offered by the fixed deposit scheme of a bank for 365 days and above is 12%. What will be the status of Rs.20000, after two years if it is invested at this point of time?

Unit 3: Financial Analysis – Application of Ratio Analysis in Financial Decision Making.

26. Which of the following falls under Profitability ratios?

    A) General Profitability ratios
    B) Overall Profitability ratios
    C) Comprehensive Profitability ratios
27. General Profitability ratios are based on
28. Gross profit ratio is calculated by
29. The ideal level of current ratio is ________.
30. Liquid ratio is also known as ___________.

    A. Quick ratio
    B. Acid test ratio
    C. Working capital ratio
    D. Stock turnover ratio
31. Which of the following would NOT improve the current ratio?
32. The ideal level of liquid ratio is ______________ .

33. Which type of ratio is Debt-equity ratio?
34. Liquid assets are determined by
35. Which of the following is not included in Quick assets?
36. Higher the ratio, the more favourable it is, does not stands true for
37. Lower the ratio, the more favourable it is true in case of ______.
38. What will be Quick Ratio if Quick Assets are Rs. 200000 and Current Liabilities are Rs. 150000?
39. Gross Profit is Rs. 250000 and Sales is Rs. 1000000 then Gross profit ratios will be ___________.
40. Cost of goods sold is Rs. 700000 and Sales is Rs. 1000000 then Gross profit ratios will be ___________.
41. Net Profit is Rs. 100000 and Sales is Rs. 1000000 then Gross profit ratios will be ___________.
42. Quick ratio is 1.8:1, current ratio is 2.7:1 and current liabilities are Rs 60,000. Determine value of stock.
43. In the balance sheet amount of total assets is Rs.30 lakhs, current liabilities Rs.15 lakhs & capital & reserves are Rs.6 lakhs. What is the debt equity ratio?

A. Return on Proprietors' funds is also known as:________ .
   a) Return on net worth
   b) Return on Shareholders' fund
   c) Return on Shareholders' Investment
   d) Return on net worth/ Shareholders' fund/ Shareholders' Investment

Unit 4: Financial Decisions

44. ___________ means overall cost of capital
45. ____________ is Combination of Debt and Equity capital
46. Which of these are types of Leverages?
47. Expected Dividend is Rs. 2 per share which is expected to grow at 5%. Equity Share of Rs. 10 each is presently traded at Rs. 40 then what is cost of Equity?
48. ____________ means the level of EBIT at which EPS is Zero.
49. Which of the following denotes cost of equity?
50. ____________ and____________ carry a fixed rate of interest and are to be paid off irrespective of the firm's revenues.
51. If EBT is Rs. 100000, tax rate is 50%, Preference dividend is Rs. 20,000 and No. of equity shares are 10,000 then EPS will be RS. ___________.
52. If Contribution is Rs. 5000 and Fixed Cost is Rs. 2500 then Operating Leverage is ________
53. State which of the following are True / False.
    A. Most of the time Cost of Equity and Cost of retained Earning is same.
    B. Cost of capital means cost of obtaining funds.
    C. Financial Leverage occurs due to operating Fixed cost.
54. The measure of business risk is ______________.

55. Use of fixed interest securities in the capital structure is called …
56. Composite Leverage is also known as ___________.
57. ____________ means the value of EBIT where EPS of two plans is Equal
58. If Operating Leverage is 2 and Combined leverage is 10 then Financial Leverage is _____
59. Market values are often used in computing the weighted average cost of capital because
60. The term "capital structure" refers to:
61. Reserves & Surplus are which form of financing?
62. In Walter model formula D stands for
63. In MM model MM stands for...
64. The presence of fixed costs in the total cost structure of a firm results into ____.
65. Operating leverage =
66. Financial leverage =
67. Earnings per share =
68. Price earnings ratio =
69. Sales of a firm are Rs. 148 lakh, variable costs Rs. 80 lakh, fixed costs Rs. 16 lakh. Operating lever …
70. Operating leverage arises because of:
71. Dividend Playout Ratio is
72. If 'r' = 'ke', then MP by Walter's Model and Gordon's Model for different pay-out ratios would be ______.
73. If Earning after tax is Rs.500000, preference dividend is Rs. 50000 and equity capital is Rs. 450000 Of Rs. 10 each then EPS will be Rs. _______.
74. If Earning after tax is Rs.600000, preference dividend is Rs. 100000 and equity capital is Rs. 500000 Of Rs. 10 each then what will be EPS?
75. If Contribution is Rs. 600000, Fixed Cost is Rs.50000, Interest is Rs.50000 and Tax rate is 30% then what will be Combined Ratio?
76. If Sales is Rs. 100000, Variable cost is Rs. 60000 and Fixed cost is Rs. 20000 then what will be Operating Leverage?
77. EBIT is Rs. 1100000, Tax rate is 30% and interest on debenture is Rs. 1000000 then Financial Leverage will be _____.
78. If Combined Leverage is 3 and Financial Leverage is 1.5 then find out Operating Leverage?
79. Dividend paid is Rs.4 per share and EPS is Rs.5 per Share then what is Dividend pay-out Ratio?
80. EPS is Rs.5 per Share and Dividend pay-out Ratio is 60 then Dividend paid is Rs. ____ per share.
81. If EPS is RS. 5 per share and P/E ratio is 20 then What is market price per share?
82. If the weighting of equity in total capital is Rs. 6lakhs, that of debt is RS. 12 Lakhs, the return on equity is 15% that of debt is 10% and the corporate tax rate is 32%, what is the Weighted Average Cost of Capital (WACC)?
83. Equity capital is Rs. 5 lakhs and Debt is Rs. 15 lakhs, cost of equity is 15% and the cost of debt is 10%, Tax rate is 30% Calculate WACC?

84. Expected Dividend per share is Rs. 2, Market price per share is Rs. 20 and growth rate of dividend is 10% then what is the cost of equity?
85. Dividend declared per share is Rs.10, Market price per share is Rs. 55 and growth rate of dividend is 10% then what is the cost of equity?
86. 10% Debentures of Rs. 100 each worth Rs. 100000 is redeemable after 5 years at Rs.110 and tax rate is 30%. Calculate Cost of debt?
87. 10% Preference share of Rs. 100 each worth Rs. 200000 is redeemable after 4 years at Rs.120. Calculate Cost of Preference share?