# University of Mumbai

Program: **ALL_Institute Level Optional Course 2**

## Question Bank

Curriculum Scheme: Rev2016

Examination: BE Semester VIII

Course Code: ILO 8022 and Course Name: Finance Management

==========

## Objective Questions

| | |
|---|---|
| 1. | MM Theory in perfect market suggests that dividend payment |
| Option A: | Has a positive impact on the value of a firm |
| Option B: | Has no impact on the value of a firm |
| Option C: | Has negative impact on the value of a firm |
| Option D: | Has negligible impact on the value of a firm |
| | |
| 2. | A low risk-taking individual will most probably invest in which of these instruments: |
| Option A: | Equity |
| Option B: | Debt |
| Option C: | Fixed Deposits |
| Option D: | Mutual Funds |
| | |
| 3. | Purchasing equipment plus investing in modern technology indicates: |
| Option A: | Increased profit |
| Option B: | Growth & Diversification |
| Option C: | Happy Shareholders |
| Option D: | Capital financing |
| | |
| 4. | Mukesh has two options to choose:<br>1. investment which would give him a returns of 15% with 15% standard deviation.<br>2. investment which would give him a returns of 13% with 25% standard deviation.<br>He has chosen the second option. What type of risk profile does he represent? |
| Option A: | Risk - Averse |
| Option B: | Risk - Premium |
| Option C: | Risk - Neutral |
| Option D: | Risk - Seeking |
| | |
| 5. | The amount spent for capital expenditures will be reported in which section of the statement of cash flows? |
| Option A: | Cash Provided/used In Financing Activities |
| Option B: | Cash Provided/used In Investing Activities |
| Option C: | Cash Provided/used In Operating Activities |
| Option D: | Supplemental Information |
| | |
| 6. | Project finance is |
| Option A: | Balance Sheet financing |
| Option B: | Difficult financing |
| Option C: | Off-Balance Sheet financing |
| Option D: | Mezzanine financing |

| | |
|---|---|
| | |
| 7. | To estimate the optimal level of current assets comprises a tradeoff w.r.t costs that that fall with current assets and costs that rise with current assets. The former are referred to as _____ and the latter as _____ respectively. Justify. |
| Option A: | Shortage Costs and Ordering Costs |
| Option B: | Carrying Costs and Shortage Costs |
| Option C: | Ordering Costs and Shortage Costs |
| Option D: | Shortage Costs and Carrying Costs |
| | |
| 8. | Which of these is an example of internal source of finance: |
| Option A: | Sale of surplus assets |
| Option B: | Government Grants |
| Option C: | Leasing |
| Option D: | Mortgage |
| | |
| 9. | Axis Bank, PNB, SBI, ICICI are: |
| Option A: | Foreign Banks |
| Option B: | Public Sector Banks |
| Option C: | Commercial Banks |
| Option D: | Private Sector Banks |
| | |
| 10. | The preparation of pricing, budgeting, goal setting, distribution channel and other objectives can be worked upon majorly with the help of: |
| Option A: | Sales and Promotion |
| Option B: | Financial Reporting System |
| Option C: | Investment Decisions |
| Option D: | Profit Margin |
| 11. | Which of the following are NOT functions of a financial system? |
| Option A: | The operation of a payments system. |
| Option B: | Providing the means of portfolio adjustment. |
| Option C: | Helping to reduce unemployment. |
| Option D: | Channelling funds between lenders and borrowers. |
| | |
| 12. | Financial intermediation is the process that the financial intermediaries connect _____ and _____ by transferring funds from one side to another. |
| Option A: | Banks and account holders |
| Option B: | Borrowers and lenders |
| Option C: | Borrowers and securities firms |
| Option D: | Investors and lenders |
| | |
| 13. | _____is the chance that governing bodies will make unfavorable changes in tax laws, driving down the after-tax returns and market values of certain investments. |
| Option A: | Tax Risk |
| Option B: | liquidity risk |
| Option C: | event risk |
| Option D: | business risk |
| | |
| 14. | The current value of future cash flows discounted at the appropriate discount rate over some length of time period is called ____ |

| | |
|---|---|
| Option A: | future value |
| Option B: | present value |
| Option C: | discount value |
| Option D: | Tax value |
| | |
| 15. | Corporate finance is the division of____ that deals with financing, capital structuring, and investment decisions. |
| Option A: | a) finance |
| Option B: | b) corporate |
| Option C: | c) Accounts |
| Option D: | d) outsourcing |
| | |
| 16. | ____is the ratio between Quick Current Assets and Current Liabilities. They should be at least equal to 1 |
| Option A: | current ratio |
| Option B: | profit ratio |
| Option C: | quick ratio |
| Option D: | immediate ratio |
| | |
| 17. | Three Major Decisions in Corporate Finance does not include following, |
| Option A: | Investment decision |
| Option B: | Financing decision |
| Option C: | Strategy Decision |
| Option D: | Dividend decision |
| | |
| 18. | The internal Rate of Return (IRR) criterion for project acceptance, under theoretically infinite funds is: accept all projects which have |
| Option A: | a) IRR equal to the cost of capital |
| Option B: | b) IRR greater than the cost of capital |
| Option C: | c ) IRR less than the cost of capital |
| Option D: | d) IRR equal to the Net profit |
| | |
| 19. | . _____ of a company refers to the composition or make-up of its capitalisation and it includes all long-term capital resources viz : loans, reserves, shares and books |
| Option A: | Capital structure |
| Option B: | capital budgeting |
| Option C: | Working capital |
| Option D: | Profitability |
| | |
| 20. | Modigliani and Miller argue that the dividend decision _____. |
| Option A: | is irrelevant as the value of the firm is based on the earning power of its assets |
| Option B: | is relevant as the value of the firm is not based just on the earning power of its assets |
| Option C: | is irrelevant as dividends represent cash leaving the firm to shareholders, who own the firm anyway |
| Option D: | is relevant as cash outflow always influences other firm decisions |

**Subjective Questions**

| | |
|---|---|
| 1 | PNG's current assets and current liabilities are ₹2,00,00,000 and ₹1,40,00,000 respectively. How much additional funds can it borrow from banks for short term, without reducing the current ratio below 1.33? |
| 2 | Distinguish between equity & debt instruments. |
| 3 | What are leverage ratios? Explain any two types of the same. |
| 4 | How and why are risk and return considered significant factors in finance management? |
| 5 | What is mezzanine financing? Explain with an example. |
| 6 | Describe in brief the Net income Approach as a Capital Structure theory. |
| 7 | Explain various Financial Instruments in detail |
| 8 | Suppose you deposit $1,000 in an account that pays 12% interest, compounded quarterly. How much will be in the account after eight years if there are no withdrawals?Explain concept of Annuity in detail |
| 9 | Explain various Techniques of inventory Management |
| 10 | List various theories of capital structure. explain any one theory |
| 11 | Define risk and return. Explain Measurement of Historical Returns and Expected Returns of a Single Security and a Two-security Portfolio |
| 12 | Explain Financial Statements—Balance Sheet, Profit and Loss Account, and Cash Flow Statement |
| 13 | Explain various decisions in corporate finance. Also explain Current ratio, Quick ratio and composite ratio |
| 14 | What are financial institutions? Explain various types in detail |
| 15 | Julie Miller is evaluating a new project for her firm, Basket Wonders (BW). She has determined that the after-tax cash flows for the project will be $10,000; $12,000; $15,000; $10,000; and $7,000, respectively, for each of the Years 1 through 5. The initial cash outlay will be $40,000.<br><br>Calculate payback period. also comment on strength and weakness of payback period |
| 16 | Differentiate between ordinary annuity and annuity due with examples. |
| 17 | Explain any 5 types of money market instruments in brief. |
| 18 | Describe the relation between Capital Structure and Corporate Value. |
| 19 | What are the factors affecting an Entity's Working Capital Needs? |
| 20 | Briefly explain the types of financial services |
| 21 | How does one manage the receivables under working capital management? |
| 22 | ABBC Company is considering an investment Project A with the expected cash flows as shown below:<br>Year Project A (₹)<br>0 (1,000)<br>1 (1,200)<br>2 (600)<br>3 (250)<br>4 2,000<br>5 4,000<br>What is the NPV if the interest rate is 8%. What is the IRR of the Project? Should the company invest in the project? |

<table>
<tr><td>23</td><td>The shares of Armstrong company has the following anticipated returns with associated probabilities:
<table>
<tr><th>Return (%)</th><th>−20</th><th>−10</th><th>10</th><th>15</th><th>20</th><th>25</th><th>30</th></tr>
<tr><th>Probability</th><td>0.05</td><td>0.10</td><td>0.20</td><td>0.25</td><td>0.20</td><td>0.15</td><td>0.05</td></tr>
</table>
Calculate the expected rate of return and risk measures in terms of variance & standard deviation.</td></tr>
<tr><td>24</td><td>Explain with suitable example the concept & importance of Economic Order Quantity.</td></tr>
</table>