

Finance Management (ESE) QB SET 1 & 2

Q.1. A _____ plays a vital role in the economic growth of a country.

- a. Defence System
- b. Agricultural system
- c. Financial System
- d. None of the above

Q.2. The formal financial system comes under the purview of

- a. The Ministry of Finance (MoF), the Reserve Bank of India (RBI) & the Securities and Exchange Board of India (SEBI)
- b. The Reserve Bank of India (RBI) & The Securities and Exchange Board of India (SEBI)
- c. the Securities and Exchange Board of India (SEBI)
- d. The Reserve Bank of India (RBI)

Q.3. _____ is calculated by multiplying potential outcomes by the chances of them occurring and then summing these results.

- a. Future Value of single sum
- b. Ordinary annuity
- c. Expected Return
- d. Annuity due

Q.4. The formal financial sector dealing with the traditional and rural spheres of the economy is _____.

- a. Unorganized, Non-institutional, and Non-regulated system
- b. Organized, Non-institutional, and Non-regulated system
- c. Unorganized, institutional, and Non-regulated system
- d. Organized, Institutional, and Regulated system

Q.5. Partnership firms consisting of:

- a. local brokers
- b. pawnbrokers
- c. chit-fund companies
- d. All of the above

Q. 6. The formal financial system consists of the following segments or components:

- a. financial institutions
- b. financial markets
- c. financial instruments
- d. All of the above

Q.7. _____ systems serve an important role in the economy as the main arteries of the financial sector.

- a. Defence
- b. Payment and settlement
- c. Agricultural
- d. Financial System

Q.8. A financial system is a complex, well-integrated set of sub-systems of financial institutions, markets, instruments, and services which facilitates the transfer and allocation of funds, efficiently and effectively.

- a. True
- b. False

Q.9. Having a _____ does not make you a shareholder and you do not have the right to vote in the general meetings of the company.

- a. Share
- b. Preference share
- c. Bond
- d. Debenture

Q.10. _____ are usually issued by the government bodies while _____ are issued by private companies.

- a. Bonds, Debentures
- b. Debentures, Bonds
- c. Shares, Bonds
- d. Debentures, Shares

Q.11. A _____ is a promissory note issued by a bank. It is a time deposit that restricts holders from withdrawing funds on demand.

- a. Share
- b. Bond
- c. Preference share
- d. Certificate of Deposit

Q.12. A _____ is a summary of the financial balances of an individual or organization.

- a. Balance sheet
- b. Profit and Loss Account
- c. Cash flow statement
- d. Cash Balance

Q.13. The basic elements of a well-functioning financial system are:

- a. A strong legal and regulatory environment
- b. Stable money
- c. sound public finances and public debt management
- d. All of the above

Q.14. _____ ratios show how well a company can generate profits from its operations.

- a. Financial leverage
- b. Profitability
- c. Efficiency
- d. Liquidity

Q.15. _____ is also called an equity.

- a. Certificate of Deposit
- b. Debenture
- c. Share
- d. Bond

Q.16. _____ are debt instruments issued by companies to raise their funds for short or medium term.

- a. Shares
- b. Preference shares
- c. Bonds
- d. Debentures

Q.17. If an investment has a 50% chance of gaining 20% and a 50% chance of losing 10%, the expected return is _____

- a. 21%
- b. 25%
- c. 5%
- d. 10%

Q.18. Coverage ratio example is _____

- a. asset turnover ratio
- b. inventory turnover
- c. days' sales in inventory
- d. Times interest earned ratio

Q.19. Optimize Stock Price, Maximize Wealth of Shareholder & Maximize company's value are the _____ objectives of corporate finance?

- a. Optimum
- b. Wealth
- c. Maximize
- d. Primary

Q.20. _____ and _____ choices is like two different sides of the identical coin.

- a. Investing, financing
- b. Shares, bonds
- c. Debentures, Shares
- d. Stocks, IPOs

Q.21. In _____ debenture type, there is no obligation on the company to repay the amount back to the investor when debenture comes due.

- a. Secured Debenture
- b. Unsecured Debenture
- c. Convertible debenture
- d. Non-convertible debenture

Q.22. _____ is often described as a "snapshot of a company's financial condition".

- a. Cash flow statement
- b. Profit and Loss account
- c. Balance sheet
- d. profit Sheet

Q.23. A _____ is a savings certificate with a fixed maturity date and specified fixed interest rate that can be issued in any denomination aside from minimum investment requirements.

- a. Share
- b. Bond
- c. Preference share
- d. Certificate of Deposit

Q.24. A _____ is a type of bank that provides services such as accepting deposits, making business loans, and offering basic investment products that is operated as a business for profit.

- a. Capital market
- b. Money market
- c. Commercial bank
- d. Merchant bank

Q.25. _____ ratio is also called as Solvency ratio.

- a. Financial leverage
- b. Profitability
- c. Efficiency
- d. Liquidity

Q.26. Business's income from sales is called _____

- a. Turnover
- b. Net profit
- c. Gross profit
- d. Gross Earning

Q.27. return on equity, return on capital employed & gross margin ratio are called as _____.

include:

- a. Profit on equity ratios
- b. return on margin employed ratios
- c. margin ratios
- d. Profitability ratios

Q.28. _____ ratios measure a company's ability to make the interest payments and other obligations associated with its debts.

- a. Solvency
- b. Coverage
- c. Efficiency
- d. Liquidity

Q.29. A _____ is a complete payment consisting of a single sum of money, as opposed to a series of payments made over time

- a. Lump sum
- b. Ordinary annuity
- c. Expected Return
- d. Annuity due

Q.30. Example of Annuity-due is _____

- a. Installment loans
- b. Rent payments
- c. Coupon bearing bonds
- d. None of the above

Q.31. Future Value of single sum formula is given by:

- a. $FV = PV(1+i)^n$
- b. $FV = PV(1+r)^t$
- c. Both a and b
- d. None of the above

Q.32. Expected Return formula is given by:

- a. $FV = PV(1+i)^n$
- b. $FV = PV(1+r)^t$
- c. $\text{SUM}(\text{Return}_i * \text{Probability}_i)$
- d. None of the above

Q.33. Historical return is the profit or loss an investor anticipates on an investment that has known or expected rates of return.

- a. True
- b. False

Q.34. The difference between the assets and the liabilities is known as _____

- a. Cash
- b. Net assets
- c. Future assets
- d. Net Cash

Q.35. A business's total income, less all its day-to-day running costs, is its _____

- a. Turnover
- b. Net profit
- c. Gross profit
- d. Net Turnover

Q.36. The cost of buying materials to make goods to sell, and the cost of delivering finished goods to customers, would be _____

- a. Indirect cost
- b. Net profit
- c. Gross profit
- d. Direct cost

Q.37. Which of the following are the functions of corporate finance?

- a. Investment Choice
- b. Acquisition of Resources
- c. Allocation out of Resources
- d. All of the above

Q.38. _____ shows your business's income, less its day-to-day running costs, over a given period of time – often a year, month, or quarter.

- a. Balance sheet
- b. Profit and Loss Account
- c. Cash flow statement
- d. None of the above

Q.39. When investors and analysts talk about fundamental or quantitative analysis, they are usually referring to ratio analysis.

- a. True
- b. False

Q.40. You put Rs.10,000 into an investment account earning 6.25% per year compounded monthly. Find the value of your investment in 2 years or, the future value of your account.

- a. Rs. 11,723.81
- b. Rs.13,327.81
- c. Rs.11,327.81
- d. Rs. 17,327.81

Q.41. The data retrieved from the financial statements is used to _____

- a. compare a company's performance over time to assess whether the company is improving or deteriorating
- b. compare a company's financial standing with the industry average
- c. compare a company to one or more other companies operating in its sector to see how the company stacks up
- d. All of the above

Q.42. _____ ratios compare a company's debt levels with its assets, equity, and earnings to evaluate whether a company can stay afloat in the long-term by paying its long-term debt and interest on the debt.

- a. Solvency
- b. Profitability
- c. Efficiency
- d. Liquidity

Q.43. Profitability ratios include:

- a. Profit margin
- b. return on assets
- c. return on equity
- d. All of the above

Q. 44. Future value calculation

- a. $FV_n = PV \times (1+i)^n$
- b. $FV_n = PV \times (1-i)^n$
- c. $FV_n = PV \times (i+1)^n$
- d. $FV_n = PV \times (i-1)^n$

Q.45. Key efficiency ratios are _____

- a. asset turnover ratio
- b. inventory turnover
- c. days' sales in inventory
- d. All of the above

Q.46. Coverage ratio example is _____

- a. debt-service coverage ratio
- b. return on equity
- c. return on capital employed
- d. gross margin ratio

Q.47. Investors use which of the following ratio to determine what they may receive in earnings from their investments and to predict what the trend of a stock will be in the future.

- a. Stock Market Ratio
- b. Coverage
- c. Efficiency
- d. Liquidity

Q.48. The short and long term debt **ratio** of a company should also be considered while examining the **capital structure**.

- a. True
- b. False

Q.49. The limitations of Ratio analysis are _____

- a. Different Accounting policies
- b. Dependence on Business conditions
- c. Interpretation of the results of the ratio
- d. All of the above

Q.50 Price earning Ratio is defined as

- a. $(\text{Market price per Share Equity Share} \times \text{Earning Per Share}) / 100$
- b. $(\text{Market price per Share Equity Share} + \text{Earning Per Share}) \times 100$
- c. $(\text{Market price per Share Equity Share} / \text{Earning Per Share}) \times 100$
- d. $(\text{Market price per Share Equity Share} \times \text{Earning Per Share}) \times 100$

Q.51. Of the four basic financial statements, the _____ is the only statement which applies to a single point in time of a business' calendar year.

- a. Cash flow statement
- b. Profit and Loss account
- c. Balance sheet
- d. None of the above

Q.52. According to the accounting equation, net worth must equal assets minus liabilities.

- a. True
- b. False

Q.53. Turnover less direct costs gives a figure called _____

- a. Indirect cost
- b. Net profit
- c. Gross profit
- d. None of the above

Q.54. The _____ captures both the current operating results and the accompanying changes in the balance sheet.

- a. Cash flow statement
- b. Profit and Loss account
- c. Trial balance
- d. None of the above

Q.55 The informal financial system consists of:

- a. RBI
- b. SEBI
- c. Finance Ministry
- d. Landlords

Q.56. Which of these is not a fundamental objective of Indian Financial System?

- a) To give time value to money
- b) Offer Services that reduce risk of loss
- c) Issuing Bank Notes
- d) Provide a payment System

Q.57. In India, Commercial Papers are issued as per the lines issued by

- (a) Securities and Exchange Board of India
- (b) Reserve Bank of India
- (c) Forward Market Commission
- (d) Pension Fund Regulatory and Development Authority (PFRDA).

Q.58. The type of collateral (security) used for short-term loan is

- (a) Real estate
- (b) Plant & Machinery
- (c) Stock of good
- (d) Equity share capital

Q.59. Ratio of Net Income to Number of Equity Shares known as:

- (a) Price Earnings Ratio
- (b) Net Profit Ratio
- (c) Earnings per Share
- (d) Dividend per Share

Q.60. Working Capital Turnover measures the relationship of Working Capital with

- (a) Fixed Assets
- (b) Sales
- (c) Purchases
- (d) Stock

Q.61. In India, **except this one** all the others are non-banking financial institutions, namely, _____ are the major institutional purveyors of credit.

- a. the developmental financial institutions (DFIs)
- b. non-banking financial companies (NBFCs)
- c. housing finance companies (HFCs)
- d. Reserve Bank of India (RBI)

Q.62. XYZ Ltd. has a Debt Equity Ratio of 1.5 as compared to 1.3 Industry average. It means that the firm has:

- (a) Higher Liquidity
- (b) Higher Financial Risk
- (c) Higher Profitability
- (d) Higher Capital Employed

Q.63 "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.

Q.64 The long-run objective of financial management is to:

- a) maximize earnings per share.
- b) maximize the value of the firm's common stock.
- c) maximize return on investment.
- d) maximize market share.

Q.65 What are the earnings per share (EPS) for a company that earned Rs. 100,000 last year in after-tax profits, has 200,000 common shares outstanding and Rs. 1.2 million in retained earning at the year end?

- a) Rs. 100,000
- b) Rs. 6.00
- c) Rs. 0.50
- d) Rs. 6.50

Q.66 The focal point of financial management in a firm is:

- a) the number and types of products or services provided by the firm.
- b) the minimization of the amount of taxes paid by the firm.
- c) the creation of value for shareholders.
- d) the dollars profits earned by the firm.

Q.67 _____ of a firm refers to the composition of its long-term funds and its capital structure.

- a) Capitalisation
- b) Over-capitalisation
- c) Under-capitalisation
- d) Market funds

Q.68 In _____ approach, the capital structure decision is relevant to the valuation of the firm.

- a) Net income
- b) Net operating income
- c) Traditional
- d) Miller and Modigliani

Q.69 _____ is defined as the length of time required to recover the initial cash out-lay.

- a) Payback-period
- b) Inventory conversion period
- c) Discounted payback-period
- d) Budget period

Q.70 Amounts due from customers when goods are sold on credit are called _____.

- a) Trade balance
- b) Trade debits
- c) Trade discount
- d) Trade off

Q.71 Credit policy of every company is largely influenced by _____
_____.

- a) Liquidity, accountability
- b) Liquidity, profitability
- c) Liability, profitability
- d) Liability, liquidity

Q.72 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?

- a) Rs. 28032
- b) Rs. 24048
- c) Rs. 22056
- d) Rs. 25088

Q.73 Kanji Company had sales last year of Rs. 265 million, including cash sales of Rs. 25 million. If its average collection period was 36 days, its ending accounts receivable

balance is closest to _____. (Assume a 365-day year.)

- a) Rs. 26.1 million
- b) Rs. 23.7 million
- c) Rs. 7.4 million
- d) Rs. 18.7 million

Q.74 Debt-to-total assets (D/TA) ratio is .4. What is its debt-to-equity (D/E) ratio?

- a) .2
- b) .6
- c) .667
- d) .333

Q.75 Which of the following is **NOT** a cash outflow for the firm?

- a) depreciation.
- b) dividends.
- c) interest payments.
- d) taxes.

Q.76 A capital investment is one that

- a) has the prospect of long-term benefits.
- b) has the prospect of short-term benefits.
- c) is only undertaken by large corporations.
- d) applies only to investment in fixed assets.

Q.77 A project's *profitability index* is equal to the ratio of the _____ of a project's future cash flows to the project's_.

- a) present value; initial cash outlay
- b) net present value; initial cash outlay
- c) present value; depreciable basis
- d) net present value; depreciable basis

Q.78 To increase a given present value, the discount rate should be adjusted

- a) upward.
- b) downward.
- c) No change.
- d) constant

Q.79 In finance, "working capital" means the same thing as

- a) total assets.
- b) fixed assets.
- c) current assets.
- d) current assets minus current liabilities.

Q.80 ____ varies inversely with profitability.

- a) Liquidity.
- b) Risk.
- c) Financing.
- d) Liabilities.